

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 0-1375

FARMER BROS. CO.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

95-0725980

(State of Incorporation)

(I.R.S. Employer Identification No.)

20333 South Normandie Avenue, Torrance, California 90502

(Address of Principal Executive Offices; Zip Code)

Registrant's telephone number, including area code **310-787-5200**

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, \$1.00 par value	NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price at which the Farmer Bros. Co. common stock was sold on December 31, 2006 was approximately \$205.9 million.

On September 1, 2007 the registrant had 16,075,080 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into Part III of this Form 10-K: certain portions of the definitive proxy statement for the fiscal year ended June 30, 2007 that is expected to be filed with the U.S. Securities and Exchange Commission on or before October 28, 2007.

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PART I

Item 1. Business

General

Farmer Bros. Co., including its consolidated subsidiaries unless the context otherwise requires, (the “Company,” “we,” “our” or “Farmer Bros.”) is a manufacturer, wholesaler and distributor of coffee and spices to the institutional food service segment. The Company was incorporated in California in 1923, and reincorporated in Delaware in 2004. On April 27, 2007, we completed the acquisition of Coffee Bean Holding Co., Inc., a Delaware corporation (“CBH”), the parent company of Coffee Bean International, Inc., an Oregon corporation (“CBI”), a specialty coffee roaster and wholesaler headquartered in Portland, Oregon (the “CBI Acquisition”).

Our product line is specifically focused on the needs of our market segment: institutional food service establishments that prepare and market meals and food products, including restaurants, hotels and hospitals, as well as retailers such as convenience stores, coffee houses, general merchandisers and grocery stores. Our product line includes roasted coffee, coffee related products such as coffee filters, sugar and creamers, assorted teas, cocoa, spices, and soup and beverage bases. Our product line presently includes over 400 items. For the past three fiscal years sales of roasted coffee products represented approximately 50% of our total sales and no single product other than coffee accounted for more than 10% of our revenue. Coffee purchasing, roasting and packaging takes place at our Torrance, California and Portland, Oregon plants. Our Torrance plant also serves as the distribution hub for our branches.

Raw Materials and Supplies

Our primary raw material is green coffee, an agricultural commodity. Green coffee is mainly grown outside the United States and can be subject to volatile price fluctuations. Weather, real or perceived shortages, political unrest, labor actions and armed conflict in coffee producing nations, and government actions, including treaties and trade controls between the U.S. and coffee producing nations, can affect the price of green coffee.

Green coffee prices can also be affected by the actions of producer organizations. The most prominent of these are the Colombian Coffee Federation (CCF), the Association of Coffee Producing Countries (ACPC) and the International Coffee Organization (ICO). These organizations seek to increase green coffee prices largely by attempting to restrict supplies, thereby limiting the availability of green coffee to coffee consuming nations.

Other raw materials used in the manufacture of our non-coffee products (“allied products”) include a wide variety of spices, such as pepper, chilies, oregano and thyme, as well as cocoa, dehydrated milk products, salt and sugar. These raw materials are agricultural products and can be subject to wide cost fluctuations. Such fluctuations, however, historically have not had a material effect on our operating results.

Trademarks

We own 91 registered trademarks, which are integral to customer identification of our products. It is not possible to assess the impact of the loss of such identification.

Seasonality

We experience some seasonal influences. The winter months are generally the best sales months. However, our product line and geographic diversity provide some sales stability during the warmer months when coffee consumption ordinarily decreases. Additionally, we usually experience an increase in sales during the summer months from seasonal businesses located in vacation areas.

Distribution

Most sales are made “off-truck” to our institutional food service customers at their places of business by our sales representatives who are responsible for soliciting, selling and collecting from and otherwise maintaining our customer accounts. Our distribution trucks are replenished from warehouses located in a number of cities in the western United States. We operate our own long haul trucking fleet in an effort to more effectively control the supply of products to these warehouses. Inventory levels are maintained at each branch warehouse consisting of our complete product line and additional safety stocks to accommodate a modest interruption in supply. A portion of our products are distributed by third parties or are direct shipped via common carrier.

As one of the largest wholesale specialty coffee roasters in the nation, CBI markets their unique specialty coffee line primarily to coffee houses and private-label retailers and other national accounts utilizing a variety of distribution channels. In contrast, Farmer Bros. serves a variety of traditional coffee blends at different price points to restaurants, hotels, hospitals, etc. utilizing its own distribution network. We believe the combination of the two marketing approaches and the combined product line (adding over 100 SKU’s) allows the two companies to better serve their current and prospective customers’ needs without regard to the means of distribution.

Customers

No single customer represents a significant concentration of sales. As a result, the loss of one or more of our larger customer accounts is not likely to have a material adverse effect on our results of operations. We serve a wide variety of customers, from small restaurants and donut shops to large institutional buyers like restaurant chains, hospitals, hotels, contract food services and convalescent hospitals. Customer contact, our distribution network and our service

quality, are integral to our sales effort. As a result of the CBI Acquisition we added additional customer categories that include gourmet coffee houses, national foodservice, national mass market merchandisers and grocery stores.

Competition

We face competition from many sources, including the institutional food service divisions of multi-national manufacturers of retail products such as Procter & Gamble (Folgers Coffee), Kraft Foods (Maxwell House Coffee) and Sara Lee Foods (Superior Coffee), wholesale grocery distributors such as Sysco and U.S. Food Service, and regional institutional coffee roasters such as S & D Coffee Company and Boyd Coffee Company. Management believes we may have some competitive advantages due to our longevity and strong regional roots. Our focus on the quality of our products, our distribution network and our customer service are the major factors that differentiate us from our competitors.

Competition is robust, and is primarily based on products and price, with distribution often a major factor. Most of our customers rely on us for distribution, however some of our customers use third party distribution or conduct their own distribution. Some of our customers are “price” buyers, seeking the low cost provider with little concern about service, while others find great value in the service programs we provide. We compete well when service and distribution are valued by our customers, and are less effective when only price matters. Our customer base is price sensitive and we are often faced with price competition.

Working Capital

We finance our operations internally, and we believe that working capital from internal sources will be adequate for the coming fiscal year.

Foreign Operations

We have no material revenues from foreign operations.

Other

On June 30, 2007 we employed 1,233 employees, 441 of whom are subject to collective bargaining agreements. Compliance with government regulations relating to the discharge of materials into the environment has not had a material effect on our financial condition or results of operations. The nature of our business does not provide for maintenance of or reliance upon a sales backlog. No portion of our business may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of the government.

Available Information

Our Internet website address is <http://www.farmerbroscousa.com> (the website address is not intended to function as a hyperlink, and the information contained in our website is not intended to be part of this filing), where we make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K including amendments thereto as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Item 1A. Risk Factors

Certain statements contained in this annual report on Form 10-K regarding the risks, circumstances and financial trends that may affect our future operating results, financial position and cash flows are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management’s current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact. These forward-looking statements can be identified by the use of words like “anticipates,” “feels,” “estimates,” “projects,” “expects,” “plans,” “believes,” “intends,” “will,” “assumes” and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, fluctuations in availability and cost of green coffee, competition, organizational changes, our ability to successfully integrate the CBI Acquisition, the impact of a weaker economy, business conditions in the coffee industry and food industry in general, the Company’s continued success in attracting new customers, variances from budgeted sales mix and growth rates, and weather and special or unusual events, as well as other risks described in this report and other factors described from time to time in the Company’s filings with the SEC.

The following items are representative of the risks, uncertainties and other conditions that may impact the Company’s business, future performance and the forward-looking statements that it makes in this annual report on Form 10-K or that it may make in the future. Our actual results could differ materially from anticipated results as a result of some or all of these items or from other factors.

OUR EFFORTS TO SECURE AN ADEQUATE SUPPLY OF QUALITY COFFEES MAY BE UNSUCCESSFUL AND EXPOSE US TO COMMODITY PRICE RISK.

Maintaining a steady supply of green coffee is essential to keep inventory levels low and secure sufficient stock to meet customer needs. To help ensure future supplies, we may purchase our coffee on forward contracts for delivery as long as six months in the future. In the event of non-performance by the

suppliers, the Company could be exposed to credit and supply risk. Entering into such future commitments also leaves the Company subject to purchase price risk. Various techniques are used to hedge these purchases against untoward price movement. Competitive factors make it difficult for the Company to “pass through” such price fluctuations to its customers. Therefore, unpredictable price changes can have an immediate effect on operating results that cannot be corrected in the short run. To reduce its exposure to the volatile fluctuation of green coffee costs, Farmer Bros. has, from time to time, entered into futures

contracts to hedge coffee purchase commitments. Open contracts associated with these hedging activities are described in Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.”

INCREASES IN THE COST OF GREEN COFFEE COULD REDUCE OUR GROSS MARGIN AND PROFIT.

Our primary raw material is green coffee, an agricultural commodity. Green coffee is mainly grown outside the U.S. and can be subject to volatile price fluctuations. Weather, real or perceived shortages, labor actions, political unrest and armed conflict in coffee producing nations, and government actions, including treaties and trade controls between the U.S. and coffee producing nations, can affect the price of green coffee. Green specialty coffees sell at a premium to other green coffees due to the inability of producers to increase supply in the short run to meet rising demand. As a result, the price spread between specialty coffee and non-specialty coffee is likely to widen as demand continues to increase.

Green coffee prices can also be affected by the actions of producer organizations. The most prominent of these are the Colombian Coffee Federation (CCF), the International Coffee Organization (ICO) and the Association of Coffee Producing Countries (ACPC). These organizations seek to increase coffee prices largely by attempting to restrict supplies, thereby limiting the availability of green coffee to coffee consuming nations. As a result these organizations or others may succeed in raising green coffee prices.

In the past, we generally have been able to pass on increases in green coffee costs to our customers. However, there can be no assurance that we will be successful in passing such fluctuations on to our customers without losses in sales volume or gross margin in the future. Similarly, rapid, sharp decreases in the cost of green coffee could also force us to lower sales prices before realizing cost reductions in our green coffee inventory.

OUR INDUSTRY IS HIGHLY COMPETITIVE AND WE MAY NOT HAVE THE RESOURCES TO COMPETE EFFECTIVELY.

We primarily compete with other coffee companies, including multi-national firms with substantially greater financial, marketing and operating resources than the Company. We face competition from many sources including the food service divisions of multi-national manufacturers of retail products such as Proctor and Gamble (Folgers Coffee), Kraft Foods (Maxwell House Coffee) and Sara Lee Foods (Superior Coffee), wholesale grocery distributors such as Sysco and U.S. Food Service, and regional coffee roasters such as S & D Coffee Company and Boyd Coffee Company. If we do not succeed in differentiating ourselves from our competitors or our competitors adopt our strategies, then our competitive position may be weakened.

CHANGES IN CONSUMER PREFERENCES COULD ADVERSELY AFFECT OUR BUSINESS.

Our continued success depends, in part, upon the demand for coffee. We believe that competition from other beverages continues to dilute the demand for coffee. Consumers who choose soft drinks, juices, bottled water, teas and other beverages all reduce spending on coffee. Consumer trends away from coffee could negatively impact our business.

REDUCTIONS IN DISCRETIONARY SPENDING COULD ADVERSELY AFFECT OUR BUSINESS.

Our success depends to a significant extent on a number of factors that affect discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. In a slow economy, businesses and individuals scale back their discretionary spending on travel and entertainment, including “dining out,” as well as the purchase of high-end consumables like specialty coffee. Economic conditions may also cause businesses to reduce travel and entertainment expenses, and even cause office coffee benefits to be eliminated. These factors could reduce demand for our products or impose practical limits on pricing, either of which could adversely affect our business, financial condition, operating results and cash flows.

OUR SALES AND DISTRIBUTION NETWORK IS COSTLY TO MAINTAIN.

Our sales and distribution network requires a large investment to maintain and operate. Costs include the fluctuating cost of gasoline, diesel and oil, the costs associated with managing, purchasing, maintaining and insuring a fleet of delivery vehicles, the costs of maintaining distribution warehouses throughout the country, and the costs of hiring, training and managing our route sales professionals. Many of these costs are beyond our control, and others are fixed rather than variable. Some competitors use alternate methods of distribution that eliminate some of the costs associated with our method of distribution.

WE ARE SELF-INSURED. OUR RESERVES MAY NOT BE SUFFICIENT TO COVER FUTURE CLAIMS.

We are self-insured for many risks up to significant deductible amounts. The premiums associated with our insurance have recently increased substantially. General liability, fire, workers’ compensation, directors and officers liability, life, employee medical, dental and vision and automobile risks present a large potential liability. While we accrue for this liability based on historical experience, future claims may exceed claims we have incurred in the past. Should a different amount of claims occur compared to what was estimated or the cost of the claims increase or decrease beyond what was anticipated, reserves recorded may not be sufficient and the accruals may need to be adjusted accordingly in future periods.

EMPLOYEE STRIKES AND OTHER LABOR-RELATED DISRUPTIONS MAY ADVERSELY AFFECT OUR OPERATIONS.

We have union contracts relating to the majority of our workforce located on the West Coast, including California, Oregon, Washington and Nevada. Although we believe union relations have been amicable in the past, there is no assurance that this will continue in the future. There are potential adverse effects of labor disputes with our own employees or by others who provide transportation (shipping lines, truck drivers) or cargo handling (longshoremen), both domestic and foreign, of our raw materials or other products. These actions could restrict our ability to obtain, process and/or distribute our products.

THE FAILURE TO INTEGRATE SUCCESSFULLY OTHER BUSINESSES THAT WE ACQUIRE COULD ADVERSELY AFFECT OUR BUSINESS.

In April 2007, we acquired CBI in a stock acquisition. While we have no current agreements or binding commitments regarding any potential acquisitions, as part of our growth strategy we may evaluate opportunities to acquire other businesses or enter into joint ventures that would complement our existing product line, expand our geographic reach or increase our customer base. Acquisitions entail numerous risks, including:

- the integration of new operations, products, services and personnel;
- the diversion of management and other resources from our existing businesses;

- the inability to generate revenues from new products sufficient to offset associated acquisition costs;
- the maintenance of uniform standards, controls, procedures and policies;
- accounting effects that may adversely affect our financial results, including the amortization of intangible assets;
- difficulties in retaining customers of the acquired companies;
- the impairment of employee and customer relations as a result of any integration of new management personnel or the loss of key employees of the acquired companies;
- dilution to existing stockholders from the issuance of equity securities; and
- liabilities or other problems associated with an acquired business.

Any problems we encounter in connection with our acquisitions could have a material adverse effect on our business.

OUR ROASTING AND BLENDING METHODS ARE NOT PROPRIETARY, SO COMPETITORS MAY BE ABLE TO DUPLICATE THEM, WHICH COULD HARM OUR COMPETITIVE POSITION.

We consider our roasting and blending methods essential to the flavor and richness of our coffee and, therefore, essential to our brand. Because the Company's roasting methods cannot be patented, we would be unable to prevent competitors from copying these methods if such methods became known. If our competitors copy our roasts or blends, the value of our brands may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting or blending methods that are more advanced than our production methods, which may also harm our competitive position.

BECAUSE A SUBSTANTIAL PORTION OF OUR BUSINESS IS BASED IN CALIFORNIA, OREGON, TEXAS, COLORADO, ARIZONA AND WASHINGTON, AN INTERRUPTION IN OPERATIONS IN ANY OF THESE MARKETS WOULD ADVERSELY IMPACT OUR BUSINESS.

Over half of our business is conducted in California, Oregon, Texas, Colorado, Arizona and Washington. We expect that these operations will continue to generate a substantial portion of our revenue. A significant interruption in operations at our facilities in these markets, whether as a result of an earthquake, natural disaster, terrorism or other causes, could significantly impair our ability to operate our business. Our major manufacturing facility and distribution hub is in Los Angeles County. The majority of our green coffee comes through the Ports of Los Angeles, Long Beach, San Francisco and Portland. Any interruption to port operations, highway arteries, gas mains or electrical service in these areas could restrict our ability to supply our branches with product and would adversely impact our business.

OUR OPERATING RESULTS MAY HAVE SIGNIFICANT FLUCTUATIONS FROM QUARTER TO QUARTER WHICH COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

From time to time, our operating results likely will fall below investor expectations. These results are influenced by a number of factors, including fluctuations in the price of green coffee, competition from existing or new competitors in our industry and changes in consumer preferences.

Quarterly fluctuations in our operating results as the result of these factors or for any other reason, could cause our stock price to decline. Accordingly, we believe that period-to-period comparisons of our historical or future operating results are not necessarily meaningful, and such comparisons should not be relied upon as indicators of future performance.

OPERATING LOSSES MAY CONTINUE AND, AS A RESULT, THE PRICE OF OUR STOCK MAY BE NEGATIVELY AFFECTED.

We have incurred operating losses for each of the prior three fiscal years and a net loss in one of the prior three fiscal years. If our current strategies are unsuccessful or if we are unsuccessful in integrating the CBI Acquisition with our existing operations we may not achieve the levels of sales and earnings we expect. As a result, we could suffer additional losses in future years and our stock price could decline.

FUTURE FUNDING DEMANDS UNDER PENSION PLANS FOR CERTAIN UNION EMPLOYEES ARE UNKNOWN.

We participate in two multi-employer defined benefit plans for certain union employees. The management, funding status and future viability of these plans is not known at this time. The nature of the contracts with these plans allows for future funding demands that are outside our control or ability to estimate.

WE RELY ON A SINGLE THIRD PARTY SUPPLIER TO MANAGE OUR INTEGRATED ORACLE SYSTEM THAT IS INTEGRAL TO THE SUCCESS AND OPERATION OF OUR BUSINESS.

We rely on WTS, a company affiliated with Oracle, and its employees, in connection with the hosting of our integrated management information system. This system is essential to our operations and currently includes all accounting and production software applications. By the end of fiscal 2008, WTS is also expected to host our route sales application software. If WTS were to experience financial, operational, or quality assurance difficulties, or if there were any other disruption in our relationship with WTS, we might be unable to produce financial statements, fill replenishment orders for our branch warehouses, issue payroll checks, process payments to our vendors or bill customers. Any of these items could have a material adverse effect on the Company.

WE ARE DEPENDENT ON ENTERPRISE RESOURCE PLANNING ("ERP") SOFTWARE TO OPERATE OUR BUSINESS. SHOULD WE FAIL TO OPERATE EFFECTIVELY OR IF WE ENCOUNTER DIFFICULTIES INTEGRATING SYSTEMS OR SUFFER ILL-TIMED POWER OR COMMUNICATIONS FAILURES, THE RESULT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS.

We rely on complex software and hardware to invoice our customers, produce customer statements, account for our inventory and manufacturing costs, fill branch inventory replenishment orders, pay our bills, pay our employees and produce our financial statements. We have in the past encountered, and in the

future may encounter, software and hardware errors, system design errors and errors in the operation of our systems. This has resulted and may in the future result in a number of adverse consequences, including: users being disconnected from systems and being unable to perform their job functions, and delays in producing financial statements and other key management system information.

Reliance on such software also leaves us exposed to harmful software programs such as viruses that could disrupt our business and damage our network. It is possible that a security breach or inappropriate use of our network could expose us to the possibility of system failure or other disruption. A security breach could jeopardize security of confidential information and thereby expose the Company to potential legal liability.

THE COMPANY DEPENDS ON THE EXPERTISE OF KEY PERSONNEL. THE UNEXPECTED LOSS OF ONE OR MORE OF THESE KEY EMPLOYEES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS OR COMPETITIVE POSITION.

Our continued success largely depends on the efforts and abilities of our executive officers and other key personnel. There is limited management depth in certain key positions throughout the Company. The unexpected loss of one or more of these key employees could have a material adverse effect on our operations and competitive position.

WE ARE SUBJECT TO RE-FUNDING OBLIGATIONS AND MAY ACQUIRE ADDITIONAL SHARES UNDER THE ESOP.

The Farmer Bros. Co. Employee Stock Ownership Plan was designed to help us attract and retain employees and to better align the efforts of our employees with the interests of our stockholders. To that end, the Company has purchased 3,000,500 shares of Company stock for the ESOP to allocate to employees over the next 12 years. It is possible that additional shares could be acquired that might deplete the Company's cash. We expect that the future re-funding liability of the existing shares in the ESOP will increase and require additional investment as the ESOP matures and individual holdings grow. When employees vested in the ESOP leave the Company, they have the right to "put" their shares to the Company for cash. This requires the Company to repurchase those shares at the current market value. Assuming all shares currently owned by the ESOP are fully distributed, the Company's re-funding liability is approximately \$67,700,000 based on the June 30, 2007 closing share price.

CONCENTRATION OF OWNERSHIP AMONG OUR EXISTING PRINCIPAL STOCKHOLDERS MAY PREVENT NEW INVESTORS FROM INFLUENCING SIGNIFICANT CORPORATE DECISIONS AND MAY RESULT IN A LOWER TRADING PRICE FOR OUR STOCK THAN IF OWNERSHIP OF OUR STOCK WAS LESS CONCENTRATED.

As of September 1, 2007, members of the Farmer family or entities controlled by the Farmer family (including trusts and a family partnership) as a group beneficially owned approximately 40% of our outstanding common stock. As a result, these stockholders, acting together, may be able to influence the outcome of stockholder votes, including votes concerning the election and removal of directors and approval of significant corporate transactions. This level of concentrated ownership, along with the factors described in "Risk Factors—ANTI-TAKEOVER PROVISIONS COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US," may have the effect of delaying or preventing a change in the management or voting control of the Company. In addition, this significant concentration of share ownership may adversely affect the trading price for our common stock if investors perceive disadvantages in owning stock in a company with such concentrated ownership.

ANTI-TAKEOVER PROVISIONS COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US.

We have adopted a stockholder rights plan (the "Rights Plan") and declared a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of our common stock to stockholders of record as of March 28, 2005. Each Right, when exercisable, will entitle the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, \$1.00 par value per share, at a purchase price of \$112.50, subject to adjustment. The Rights expire on March 28, 2015, unless they are earlier redeemed, exchanged or terminated as provided in the Rights Plan. Because the Rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our Board of Directors, our Rights Plan could make it more difficult for a third party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our Board of Directors regarding such acquisition.

In addition, our Board of Directors has the authority to issue up to 500,000 shares of Preferred Stock (of which 200,000 shares have been designated as Series A Junior Participating Preferred Stock) and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change of control of Farmer Bros. without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock.

Further, certain provisions of our charter documents, including a classified board of directors, provisions eliminating the ability of stockholders to take action by written consent, and provisions limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Farmer Bros., which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change of control or management.

FAILURE TO MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002 COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND STOCK PRICE.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”), the SEC adopted rules requiring us, as a public company, to include a report of management on our internal controls over financial reporting in our annual report on Form 10-K and quarterly reports on Form 10-Q that contains an assessment by management of the effectiveness of our internal controls over financial reporting. In addition, our independent auditors must attest to and report on management’s assessment of the effectiveness of our internal controls over financial reporting as of the end of the fiscal year. Compliance with SOX Section 404 has been a challenge for many companies. Our ability to continue to comply is uncertain as we expect that our internal controls will continue to evolve as our business activities change. If, during any year, our independent auditors are not satisfied with our internal controls over financial reporting or the level at which these controls are documented, designed, operated, tested or assessed, or if the independent auditors interpret the requirements, rules or regulations differently than we do, then they may decline to attest to management’s assessment or may issue a report that is qualified. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with SOX Section 404. Failure to maintain an effective internal control environment could have a material adverse effect on our stock price. In addition, there can be no assurance that we will be able to remediate material weaknesses, if any, that may be identified in future periods.

COMPLIANCE WITH CHANGING REGULATION OF CORPORATE GOVERNANCE AND PUBLIC DISCLOSURE MAY RESULT IN ADDITIONAL EXPENSES.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including SOX, new SEC and Public Accounting Oversight Board regulations and NASDAQ National Market rules, are creating uncertainty for public companies. These new or changed laws, regulations and

standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and management time related to compliance activities. Substantial costs have been incurred in fiscal 2007, and will continue to be incurred to comply with various of these mandates, including the engagement of separate public accounting firms to perform work that is now prohibited to be performed by our regular independent accounting firm, internal costs associated with documenting the adequacy of our internal controls over financial reporting and similar compliance activities, and increased costs of audit by our independent accounting firm. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed and we might be subject to sanctions or investigation by regulatory authorities, such as the SEC. Any such action could adversely affect our financial results and the market price of our common stock. While Farmer Bros. believes that it has been at all times in material compliance with laws and regulations pertaining to the proper recording and reporting of our financial results, there can be no assurance that future regulations, implementing SOX and otherwise, will not have a material adverse impact on our reported results as compared with prior reporting periods.

Item 1.B. Unresolved Staff Comments

None.

Item 2. Properties

Our largest and most significant facility consists of our roasting plant, warehouses and administrative offices in Torrance, California. This facility is our primary manufacturing facility and the distribution hub for our long haul trucking fleet. We presently lease a manufacturing facility in Portland, Oregon that is the manufacturing and distribution point for our specialty coffee, grocery and mass market customers. We stage our products in 101 small branch warehouses throughout our service area. These warehouses, taken together, represent a vital part of our business, but no individual warehouse is material to the group as a whole. Our warehouses vary in size from approximately 2,500 to 20,000 square feet. Approximately 40% of our facilities are leased with a variety of expiration dates through 2011.

We believe our Torrance plant and branch warehouses will continue to provide adequate capacity for the foreseeable future. We are currently seeking to expand our Portland plant to accommodate anticipated growth.

A complete list of properties and facilities operated by Farmer Bros. is attached hereto, and incorporated herein by reference, as Exhibit 99.1.

Item 3. Legal Proceedings

We are both defendant and plaintiff in various legal proceedings incidental to our business which are ordinary and routine. It is our opinion that the resolution of these lawsuits will not have a material impact on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of fiscal 2007 no matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

We have one class of common stock which is traded on the NASDAQ National Market under the symbol “FARM.” The following table sets forth, for the periods indicated, the dividends paid and the high and low sales prices of the shares of common stock of the Company as quoted on the NASDAQ National Market.

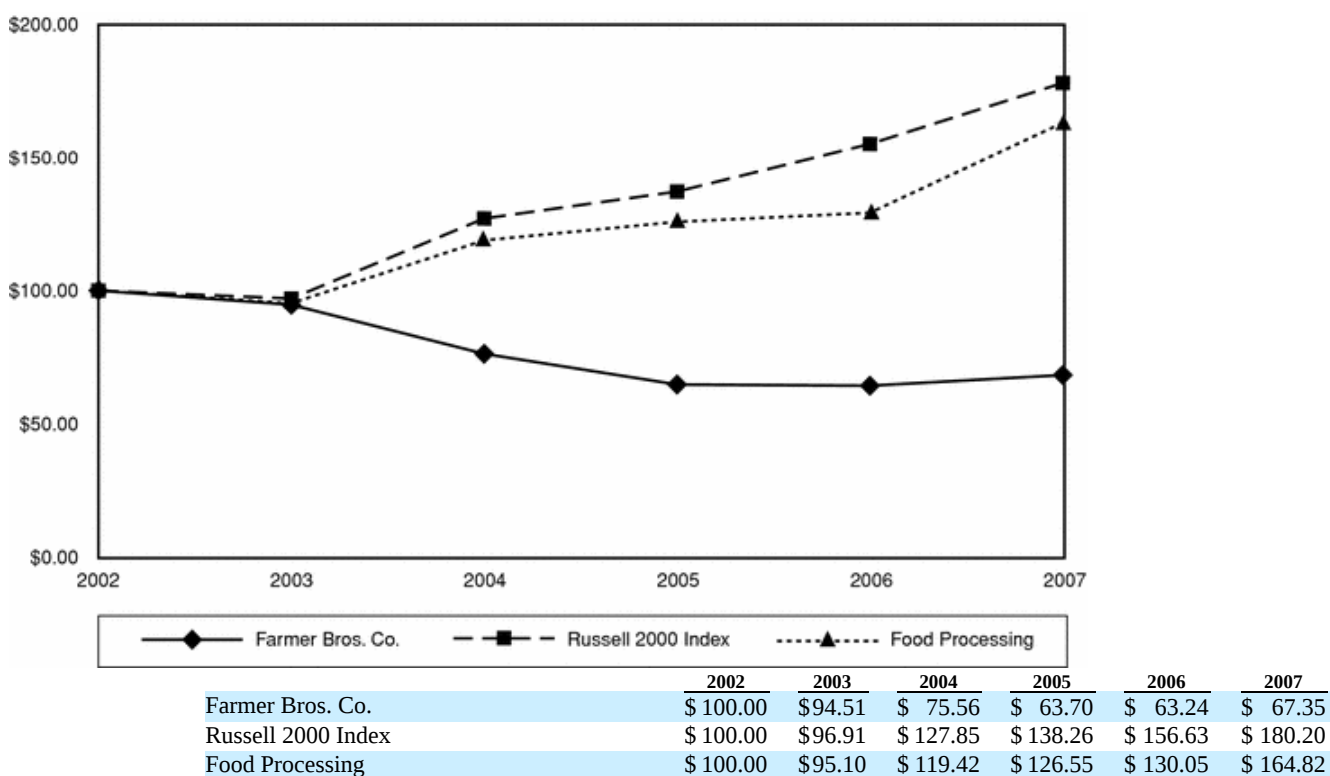
	Fiscal year ended June 30, 2007			Fiscal year ended June 30, 2006		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$ 21.13	\$ 20.70	\$ 0.11	\$ 24.98	\$ 19.50	\$ 0.105
2nd Quarter	\$ 21.48	\$ 20.97	\$ 0.11	\$ 22.87	\$ 19.11	\$ 0.105
3rd Quarter	\$ 20.61	\$ 20.23	\$ 0.11	\$ 22.61	\$ 19.31	\$ 0.105
4th Quarter	\$ 22.73	\$ 22.12	\$ 0.11	\$ 23.18	\$ 19.72	\$ 0.105

There were approximately 3,893 holders of record on September 1, 2007. Holders of record is based upon the number of record holders and individual participants in security position listings.

Performance Graph

The chart set forth below shows the value of an investment of \$100 on June 30, 2002 in each of Farmer Bros. Co. common stock, the Russell 2000 Index and the Value Line Food Processing Index. All values assume reinvestment of the pre-tax value of dividends paid by companies included in these indices and are calculated as of June 30 of each year. The historical stock price performance of the Company's common stock shown in the performance graph below is not necessarily indicative of future stock price performance.

Comparison of Five-Year Cumulative Total Return*
Farmer Bros. Co., Russell 2000 Index And Value Line Food Processing Index
(Performance Results Through 6/30/07)



Assumes \$100 invested at the close of trading 6/30/02 in Farmer Bros. Co. common stock, Russell 2000 Index, and Value Line Food Processing Index.

*Cumulative total return assumes reinvestment of dividends.

Source: Value Line, Inc.

Factual material is obtained from sources believed to be reliable, but the publisher is not responsible for any errors or omissions contained herein.

Item 6. Selected Financial Data

	For the fiscal years ended June 30.				
	2007	2006	2005	2004	2003
(In thousands, except per share data)					
Net sales	\$ 216,259	\$ 207,453	\$ 198,420	\$ 193,589	\$ 201,558
(Loss) income from operations	(4,076)	\$ (2,965)	\$ (6,583)	\$ 3,763	\$ 23,888
Net income (loss)	\$ 6,815	\$ 4,756	\$ (5,427)	\$ 12,687	\$ 23,629
Net income (loss) per common share(a)	\$ 0.48	\$ 0.34	\$ (0.40)	\$ 0.81	\$ 1.30
Total assets	\$ 337,609	\$ 317,237	\$ 314,923	\$ 317,871	\$ 416,415
Dividends per common share(a)	\$ 0.44	\$ 0.42	\$ 0.40	\$ 0.38	\$ 0.36

(a) All per share disclosures have been adjusted to reflect the stock split that became effective on May 10, 2004.

In April 2007, Farmer Bros. acquired all of the outstanding shares of CBH for a purchase price of \$23.6 million in cash, including transaction costs of approximately \$1.4 million, net of the amount of all outstanding indebtedness of CBH and its subsidiaries. The results of operations of CBH have been included in our consolidated financial statements since April 27, 2007. The Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report should be read in conjunction with the selected financial data in order to understand factors such as business combinations and unusual items which may affect the comparability of the information shown above.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis discusses the results of operations as reflected in the Company's consolidated financial statements. In April 2007, Farmer Bros. acquired all of the outstanding shares of CBH for a purchase price of \$23.6 million in cash, including transaction costs of approximately \$1.4 million, net of the amount of all outstanding indebtedness of CBH and its subsidiaries. The results of operations of CBH have been included in our consolidated financial statements since April 27, 2007. An amount of \$3.3 million, representing the excess of the purchase price over the fair value of the identifiable net assets acquired, has been recorded as goodwill. We have completed our purchase price allocation at the acquisition date.

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The results of operations for the fiscal years ended June 30, 2007, 2006 and 2005 are not necessarily indicative of the results that may be expected for any future period. The following discussion should be read in combination with the consolidated financial statements and the notes thereto included in Item 8 of this report and with the "Risk Factors" described in Item 1A of this report.

Critical Accounting Policies

Overview

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventory valuation, including LIFO reserves, the allowance for doubtful accounts, deferred tax assets, liabilities relating to retirement benefits, liabilities resulting from self-insurance of our workers' compensation liabilities, tax liabilities and litigation. We base our estimates on historical experience and other relevant factors that are believed to be reasonable under the circumstances.

While we believe that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, actual results may differ from these estimates, which could require the Company to make adjustments to these estimates in future periods.

Investments

Our investments consist of investment grade marketable debt instruments issued by the U.S. Government and major U.S. and foreign corporations, equity securities, primarily preferred stock, and various derivative instruments, primarily exchange traded treasury futures and options, green coffee forward contracts and commodity purchase agreements. All derivatives not designated as accounting hedges are marked to market and changes are recognized in current earnings. The fair value of derivative instruments is based upon broker quotes where possible.

Inventories

Inventories are valued at the lower of cost or market and the costs of coffee and allied products for the Company are determined on the last in, first out (LIFO) basis. Costs of coffee and allied products for CBI are determined on an average cost basis. Costs of coffee brewing equipment manufactured are accounted for on the first in, first out (FIFO) basis. We regularly evaluate these inventories to determine whether market conditions are correctly reflected in the recorded carrying value.

Self-Insurance Retention

We are self-insured for California workers' compensation insurance and use historical analysis to determine and record the estimates of expected future expenses resulting from workers' compensation claims. Additionally, we accrue for estimated losses not covered by insurance for liability, auto, medical and fire up to the deductible amounts.

Retirement Plans

We have two defined benefit plans that provide retirement benefits for the majority of our non-union employees. Other employees are covered by multiemployer union defined benefit plans. We obtain actuarial valuations for both plans and at present we discount the pension obligations using a 6.25% discount rate and we estimate an 8% return on plan assets. The performance of the stock market and other investments as well as the overall health of the economy can have a material effect on pension investment returns and these assumptions. A change in these assumptions could affect our operating results. Our retiree medical plan is not funded and shares the same discount rate as the defined benefit plans. We project an initial medical trend rate of 9% ultimately reducing to 5.5% in 6 years.

Income Taxes

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which differences are expected to reverse. Estimating our tax liabilities involves judgments related to uncertainties in the application of complex tax regulations. We make certain estimates and judgments to determine tax expense for financial statement purposes as we evaluate the effect of tax credits, tax benefits and deductions, some of which result from differences in timing of recognition of revenue or expense for tax and financial statement purposes. Changes to these estimates may result in significant changes to our tax provision in future periods. Each fiscal quarter we reevaluate our tax provision and reconsider our estimates and our assumptions related to specific tax assets and liabilities, making adjustments as circumstances change.

Liquidity and Capital Resources

We have been able to maintain a strong working capital position, and believe that our short and long term cash requirements will be provided by internal sources. We do not expect to rely on banks or other third parties for our working capital needs.

The Company expects to make additional investment in CBI to increase the capacity of its Portland plant to accommodate anticipated growth. We estimate the costs associated with this expansion will be approximately \$8-15 million. The Company expects to fund this additional investment from internal sources.

Our working capital is composed of the following:

	June 30,		
	2007	2006	2005
	(In thousands)		
Current assets	\$ 239,362	\$ 246,808	\$ 245,219
Current liabilities	27,096	16,578	20,693
Working capital	\$ 212,266	\$ 230,230	\$ 224,526
Capital expenditures	\$ 35,652	\$ 12,840	\$ 8,832

At June 30, 2007 we had no major commitments for new capital expenditures.

Results of Operations

Fiscal Years Ended June 30, 2007 and 2006

Overview

During fiscal 2007 our primary focus was to continue our initiatives to strengthen sales. We continue to provide resources and support to our national sales organization. We believe securing national accounts requires an extended effort over time and while we are hopeful that we will be successful in securing additional business as a result of these efforts in the future, there can be no assurance that such accounts will be obtained. We believe that the additional resources resulting from the CBI Acquisition will assist this effort.

We completed the roll-out of our new product packaging in fiscal 2007, which we believe has been well received by our customers.

In fiscal 2007 we completed a significant upgrade to our ERP system, converted our Custom Coffee Plan Division to our ERP system in May 2007, and we began testing the sales system. We expect branch operations will begin live testing of our route sales system in the second quarter of fiscal 2008. We also expect to convert CBI to our ERP system during the third quarter of fiscal 2008.

New branches in Shreveport, Louisiana and Nashville, Tennessee were opened in August 2007. Additionally, as a result of the CBI Acquisition, we acquired a coffee plant in Portland, Oregon.

In addition to our efforts to improve sales through organic growth of our customer base and product line, we are seeking to improve operating results through better sourcing, managing distribution and other costs, and making strategic acquisitions to complement our existing core business.

Comparative Information

Net sales in fiscal 2007 increased \$8,806,000 or 4% to \$216,259,000 from \$207,453,000 in fiscal 2006, primarily because of increased sales of allied products and an additional \$5,500,000 in sales associated with CBI from the date of its acquisition.

Cost of goods sold in fiscal 2007 increased to \$89,492,000, or 42% of sales, as compared to \$84,910,000, or 41% of sales, in fiscal 2006. Although margins have been stable in fiscal 2007 and 2006, the volatility of green coffee prices, higher prices on a variety of raw materials and product packaging, strong competition and the integration of CBI with our existing operations will continue to impact future results. As a result of these factors, gross profit increased 3%, or \$4,224,000, to \$126,767,000 in fiscal 2007 as compared to \$122,543,000 in fiscal 2006.

Selling expenses in fiscal 2007 increased 2% to \$102,622,000 from \$100,354,000 in fiscal 2006. This increase was primarily the result of higher coffee brewing equipment costs associated with our sales programs. General and administrative expenses in fiscal 2007 increased 12%, or \$3,067,000, to \$28,221,000 from \$25,154,000 in fiscal 2006. This was primarily the result of higher consulting costs associated with software upgrade and development of the new sales system.

Total other income (expense) in fiscal 2007 was \$10,924,000 as compared to \$6,970,000 in fiscal 2006. This increase is primarily the result of higher interest rates during fiscal 2007.

As a result of the forgoing factors, net income for fiscal 2007 was \$6,815,000 as compared to \$4,756,000 in fiscal 2006. Net income per common share was \$0.48 in fiscal 2007 as compared to a \$0.34 in fiscal 2006.

Fiscal Years Ended June 30, 2006 and 2005

Overview

In fiscal 2005, management developed a number of short and long term initiatives to strengthen the Company's sales and distribution network and improve sales. Our efforts were focused primarily on enhancing our brand identification, expanding our product line and customer base and improving our sales and distribution efficiency. Our initiatives included:

- Promotion of our brand with new packaging throughout the product line, design and distribution of new point of sale marketing materials for our customers, and expanding our trade show schedule throughout our marketing area.

- Introduction of new products which included fruit smoothies, an expanded line of teas, liquid coffee and some seasonal products.
- Expansion of our customer base through a national accounts organization to solicit large customers and national accounts.

Comparative Information

Net sales in fiscal 2006 increased \$9,033,000 or 5% to \$207,453,000 from \$198,420,000 in fiscal 2005, primarily because of higher sales prices. Programs to enhance sales began during fiscal 2005 and continue to be deployed in fiscal 2006.

Cost of goods sold in fiscal 2006 increased to \$84,910,000, or 41% of sales, as compared to \$82,964,000, or 42% of sales, in fiscal 2005. Although we stabilized our margins in fiscal 2006 compared to fiscal 2005, the volatility of green coffee prices, higher prices on a variety of raw materials and product packaging and strong competition have restricted our ability to return to previous gross profit margins. We continue to seek alternative and competitive sources of raw materials, packaging supplies and other key cost components in an effort to improve our profit margins. There can be no assurance that such efforts will be successful.

Selling, General and Administrative Expenses in fiscal 2006 increased \$3,469,000 or 3% to \$125,508,000 from \$122,039,000 in fiscal 2005. This increase is primarily attributed to higher coffee

brewing equipment costs largely associated with new products, higher gasoline and diesel costs and increased California workers' compensation expense, offset by declines in self-insured employee medical costs, IT project consulting costs and SOX compliance consulting and auditing costs. Continuing development costs of our multi-year information systems project are currently capitalized. The new sales system implementation has been delayed and development costs associated with that project will begin depreciating in fiscal 2007.

Total other income (expense) in fiscal 2006 was \$6,970,000 as compared to (\$4,746,000) in fiscal 2005. This increase is primarily the result of higher interest rates during fiscal 2006 and the reduction of losses associated with higher green coffee prices during the second quarter of fiscal 2005 which resulted in a decrease in the value of green coffee futures and options used by the Company to hedge against a decline in commodity prices. Other, net (expense) during fiscal 2005 consisted of net realized and unrealized coffee trading losses of (\$12,992,000), offset by net gains on other investments.

As a result of the forgoing factors, net income for fiscal 2006 was \$4,756,000 as compared to a net loss of (\$5,427,000) in fiscal 2005. Net income per common share was \$0.34 in fiscal 2006 as compared to a net loss per common share of (\$0.40) in fiscal 2005.

Contractual Obligations

The following table contains supplemental information regarding total contractual obligations as of June 30, 2007 (in thousands).

	Payment due by period:			
	Total	Less Than One Year	1-3 Years	3-5 Years
Operating lease obligations	\$ 2,067	\$ 1,105	\$ 853	\$ 109
				More Than 5 years
				—

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of investment grade money market instruments can include at any given time discount commercial paper, medium term notes, federal agency issues and treasury securities. As of June 30, 2007, over 90% of these funds were invested in U.S. Treasury securities with an average maturity of 99 days. A 100 basis point move in the general level of interest rates would result in a change in the market value of the portfolio of approximately \$918,000.

Our portfolio of preferred securities includes investments in derivatives that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and (a) enter into "short positions" in futures contracts on U.S. Treasury securities or (b) hold put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. Specifically, we attempt to manage the risk arising from changes in the general level of interest rates. We do not transact in futures contracts or put options for speculative purposes.

The following table demonstrates the impact of varying interest rate changes based on the preferred stock holdings, futures and options positions, and market yield and price relationships at June 30, 2007. This table is predicated on an instantaneous change in the general level of interest rates and assumes predictable relationships between the prices of preferred securities holdings, the yields on U.S. Treasury securities and related futures and options.

The number and type of futures and options contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred stock held, the slope of the Treasury yield curve, the expected volatility of U.S. Treasury yields, and the costs of using futures and/or options.

Interest Rate Changes	Market Value at June 30, 2007			Change in Market Value of Total Portfolio
	Preferred Securities	Futures and Options	Total Portfolio	
			(In thousands)	
-150 basis points	\$ 71,100	\$ 0	\$ 71,100	\$ 4,890

-100 basis points	\$ 69,486	\$ 1	\$ 69,487	\$ 3,277
Unchanged	\$ 65,165	\$ 1,045	\$ 66,210	\$ 0
+100 basis points	\$ 60,230	\$ 5,892	\$ 66,122	\$ (88)
+150 basis points	\$ 57,736	\$ 8,940	\$ 66,676	\$ 466

Commodity Price Risk

We are exposed to commodity price risk arising from changes in the market price of green coffee. The Company prices green coffee inventory on the LIFO basis and CBI prices green coffee on an average cost basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green coffee prices. Volatile price increases cannot, because of competition and market conditions, always be passed on to our customers. From time to time the Company will hold a mix of futures contracts and options to help hedge against volatile green coffee price decreases. Gains and losses on these derivative instruments are realized immediately in Other, net income (expense).

On June 30, 2007 we had no open hedge derivative contracts, and our entire exposure to commodity risk was in the potential change of our inventory value resulting from changes in the market price of green coffee.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Farmer Bros. Co. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Farmer Bros. Co. and Subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Farmer Bros. Co. and Subsidiaries at June 30, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, on June 30, 2007, the Company changed its method of accounting for defined benefit pension and postretirement plans in accordance with Statement of Financial Accounting Standards No. 158.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Farmer Bros. Co. and Subsidiaries' internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 10, 2007 expressed an unqualified opinion thereon.

Ernst + Young LLP

Los Angeles, California
September 10, 2007

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FARMER BROS. CO. CONSOLIDATED BALANCE SHEETS (Dollars in thousands, except share and per share data)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,586	\$ 5,333
Short term investments	158,050	176,336
Accounts and notes receivable, net	17,651	13,250
Inventories	44,996	45,008
Deferred income taxes	2,462	3,300

Prepaid expenses	3,617	3,581
Total current assets	<u>\$ 239,362</u>	<u>\$ 246,808</u>
Property, plant and equipment, net	52,667	46,385
Goodwill and other intangible assets	16,959	—
Pension and other non-current assets	13,024	17,427
Deferred income taxes	15,597	6,617
Total assets	<u>\$ 337,609</u>	<u>\$ 317,237</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,702	\$ 4,197
Accrued payroll expenses	7,480	6,235
Other	10,914	6,146
Total current liabilities	27,096	16,578
Accrued postretirement benefits	44,297	31,436
Total liabilities	<u>71,393</u>	<u>48,014</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$1.00 par value, authorized 25,000,000 shares; 16,075,080 issued and outstanding	\$ 16,075	\$ 16,075
Additional paid-in capital	30,823	31,518
Retained earnings	272,406	271,733
Unearned ESOP shares	(44,240)	(50,103)
Less accumulated comprehensive loss	(8,848)	—
Total stockholders' equity	<u>\$ 266,216</u>	<u>\$ 269,223</u>
Total liabilities and stockholders' equity	<u>\$ 337,609</u>	<u>\$ 317,237</u>

The accompanying notes are an integral part of these financial statements.

FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share and per share data)

	Years ended June 30,		
	2007	2006	2005
Net sales	\$ 216,259	\$ 207,453	\$ 198,420
Cost of goods sold	89,492	84,910	82,964
Gross profit	<u>\$ 126,767</u>	<u>\$ 122,543</u>	<u>\$ 115,456</u>
Selling expense	102,622	100,354	92,112
General and administrative expenses	28,221	25,154	29,927
Operating expenses	<u>\$ 130,843</u>	<u>\$ 125,508</u>	<u>\$ 122,039</u>
(Loss) from operations	<u>\$ (4,076)</u>	<u>\$ (2,965)</u>	<u>\$ (6,583)</u>
Other income (expense):			
Dividend income	3,923	3,597	3,420
Interest income	5,768	4,445	2,721
Other, net income (expense)	1,233	(1,072)	(10,887)
Total other income (expense)	<u>\$ 10,924</u>	<u>\$ 6,970</u>	<u>\$ (4,746)</u>
Income (loss) before taxes	6,848	4,005	(11,329)
Income tax expense (benefit)	33	(751)	(5,902)
Net income (loss)	<u>\$ 6,815</u>	<u>\$ 4,756</u>	<u>\$ (5,427)</u>
Net income (loss) per common share	<u>\$ 0.48</u>	<u>\$ 0.34</u>	<u>\$ (0.40)</u>
Weighted average shares outstanding	14,106,011	13,890,609	13,653,420

The accompanying notes are an integral part of these financial statements.

FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years ended June 30,		
	2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	\$ 6,815	\$ 4,756	\$ (5,427)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	9,324	8,963	8,396
Deferred income taxes	(8,141)	(5,001)	(3,510)
Gain on sales of assets	(244)	(396)	(100)
ESOP compensation expense	5,168	4,538	6,171
Net (gain) loss on investments	(819)	2,301	11,571
Change in operating assets and liabilities:			
Short term investments	19,104	(7,582)	(5,723)
Accounts and notes receivable	(675)	2,235	(777)
Inventories	4,200	(3,922)	(5,507)
Income tax receivable	0	4,064	(3,656)
Prepaid expenses and other assets	5,026	5,056	(637)
Accounts payable	(614)	(3,655)	(1,737)
Accrued payroll, expenses and other liabilities	5,634	(139)	920
Accrued postretirement benefits	4,013	2,396	2,126
Total adjustments	\$ 41,976	\$ 8,858	\$ 7,537
Net cash provided by operating activities	\$ 48,791	\$ 13,614	\$ 2,110
Cash flows from investing activities:			
Investment in subsidiary (acquisition of CBI net of cash acquired)	(23,167)	—	—
Purchases of property, plant and equipment	(12,485)	(12,840)	(8,832)
Proceeds from sales of property, plant and equipment	256	559	165
Net cash used in investing activities	\$ (35,396)	\$ (12,281)	\$ (8,667)
Cash flows from financing activities:			
Dividends paid	(6,142)	(5,814)	(5,436)
Net cash used in financing activities	\$ (6,142)	\$ (5,814)	\$ (5,436)
Net increase (decrease) in cash and cash equivalents	\$ 7,253	\$ (4,481)	\$ (11,993)
Cash and cash equivalents at beginning of year	5,333	9,814	21,807
Cash and cash equivalents at end of year	<u>\$ 12,586</u>	<u>\$ 5,333</u>	<u>\$ 9,814</u>

The accompanying notes are an integral part of these financial statements.

FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share and per share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Other Comprehensive Income (Loss)	Total
Balance at June 30, 2004	16,075,080	\$ 16,075	\$ 32,248	\$ 283,654	\$ (61,542)	\$ (737)	\$ 269,698
Comprehensive income							
Net loss				(5,427)			(5,427)
Minimum pension liability						(120)	(120)
Total comprehensive income							(5,547)
Dividends (\$0.40 per share)				(5,436)			(5,436)
ESOP compensation expense			44		6,127		6,171
Balance at June 30, 2005	16,075,080	\$ 16,075	\$ 32,292	\$ 272,791	\$ (55,415)	\$ (857)	\$ 264,886
Comprehensive income							
Net income				4,756			4,756
Minimum pension liability						857	857
Total comprehensive income							5,613
Dividends (\$0.42 per share)				(5,814)			(5,814)
ESOP compensation expense			(774)		5,312		4,538
Balance at June 30, 2006	16,075,080	\$ 16,075	\$ 31,518	\$ 271,733	\$ (50,103)	\$ 0	\$ 269,223
Comprehensive income							
Net income				6,815			6,815
Other comprehensive loss						(8,848)	(8,848)
Total comprehensive loss							(2,033)
Dividends (\$0.44 per share)				(6,142)			(6,142)
ESOP compensation expense			(695)		5,863		5,168
Balance at June 30, 2007	<u>16,075,080</u>	<u>\$ 16,075</u>	<u>\$ 30,823</u>	<u>\$ 272,406</u>	<u>\$ (44,240)</u>	<u>\$ (8,848)</u>	<u>\$ 266,216</u>

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization

The Company, which operates in one business segment, is in the business of roasting, packaging, and distributing coffee and allied products through direct and brokered sales to restaurants, hotels and hospitals as well as retailers such as convenience stores, coffee houses, general merchandisers and grocery stores.. The Company's products are distributed by its selling divisions from branch warehouses located in most large cities throughout the western United States, and through a variety of alternate distribution channels.

Acquisition of Coffee Bean International, Inc

On April 27, 2007, the Company acquired 100% of the outstanding common shares of Coffee Bean Holding Company, Inc., a Delaware corporation ("CBH"), the parent company of Coffee Bean International, Inc., an Oregon corporation ("CBI"), a gourmet specialty coffee roaster and wholesaler headquartered in Portland, Oregon. The purchase price was \$23.6 million in cash, including transaction costs of approximately \$1.4 million, net of the amount of all outstanding indebtedness of CBH and its subsidiaries. The results of operations of CBH have been included in the Company's consolidated financial statements since April 27, 2007. Through this acquisition, the Company added additional customer categories including gourmet coffee houses, national foodservice operators, national convenience stores, national mass market merchandisers and grocery stores.

The Company has obtained a third-party valuation of CBH's acquired net assets. The purchase price allocation has not been finalized, since it is possible that certain refinements may be made if additional facts or circumstances become known that impacts the estimates as of the acquisition date. The purchase price allocation is expected to be finalized during fiscal 2008. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, based on the preliminary purchase price allocation (in millions):

Fair Value of Assets Acquired

Current assets, excluding inventories	\$ 4.3
Inventories	4.2
Property, plant and equipment	3.1
Customer relationships	10.1
Trade names	4.1
Goodwill	3.3
Total assets acquired	\$ 29.1
Liabilities assumed	(5.5)
Net assets acquired	<u>\$ 23.6</u>

The customer relationships include both contractual and non-contractual relationships, and have estimated lives ranging from 3.5 to 8 years. Because these relationships have definite lives, the Company will amortize the assets over the estimated lives on a straight-line basis. The CBI trade name has an indefinite life and thus is not subject to amortization. Other trade names owned by CBI have estimated lives of 3 years.

The goodwill is expected to be deductible for tax purposes.

Amortization expense for intangible assets amounted to approximately \$527,000 for the fiscal year ended June 30, 2007.

The following is a summary of estimated aggregate amortization expense for each of the next five fiscal years (in thousands):

FY 2008	\$2,108
FY 2009	2,108
FY 2010	1,971
FY 2011	1,514
FY 2012	1,377

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries FBC Finance Company and CBH. All inter-company balances and transactions have been eliminated.

Financial Statement Preparation

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with original maturity dates of 90 days or less to be cash equivalents. Fair values of cash equivalents approximate cost due to the short period of time to maturity.

Investments

The Company's investments consist of marketable debt and equity securities, money market instruments and various derivative instruments, primarily exchange traded treasury futures and options, green coffee forward contracts and commodity purchase agreements. All such derivative instruments not designated as accounting hedges are marked to market and changes are recognized in current earnings. At June 30, 2007 and 2006 no derivative instruments were designated as accounting hedges. The fair value of derivative instruments is based upon broker quotes. The cost of investments sold is determined on the specific identification method. Dividend and interest income is accrued as earned.

Concentration of Credit Risk

At June 30, 2007, the financial instruments which potentially expose the Company to concentrations of credit risk consist of cash in financial institutions (which exceeds federally insured limits), cash equivalents (principally commercial paper), short term investments, investments in the preferred stocks of other companies and trade receivables. Cash equivalents and short term investments are not concentrated by issuer, industry or geographic area. Maturities are generally shorter than 180 days. Other investments are in U.S. government securities. Investments in the preferred stocks of other companies are limited to high quality issuers and are not concentrated by geographic area or issuer. Concentration of credit risk with respect to trade receivables for the Company is limited due to the large number of customers comprising the Company's customer base and their dispersion across many different geographic areas. The

trade receivables are short term, and all probable bad debt losses have been appropriately considered in establishing the allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or market. Costs of coffee and allied products for the Company are determined on the last in, first out (LIFO) basis. Costs of coffee and allied products at CBI are determined on an average cost basis. Costs of coffee brewing equipment manufactured are accounted for on the first in, first out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method. The following useful lives are used:

Building and facilities	10 to 30 years
Machinery and equipment	3 to 5 years
Office furniture and equipment	5 years
Capitalized software	3 years

When assets are sold or retired the asset and related depreciation allowance are eliminated from the records and any gain or loss on disposal is included in operations. Maintenance and repairs are charged to expense, and betterments are capitalized.

Income Taxes

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which differences are expected to reverse. A valuation allowance is recorded, if necessary, to reduce deferred tax assets to an amount management believes is more likely than not to be realized.

Revenue Recognition

Products are sold and delivered to the Company's customers at their places of business by the Company's route sales employees. Revenue is recognized at the time the Company's sales representatives physically deliver products to customers and title passes or when products are accepted by the customer when shipped by third party delivery.

Net Income (Loss) Per Share

Net income (loss) per share has been computed in accordance with SFAS Statement No. 128, "Earnings per Share" excluding unallocated shares held by the Company's Employee Stock Ownership Plan (see Note 6). The Company has no dilutive shares for any of the three fiscal years in the period ended June 30, 2007. Accordingly, the consolidated financial statements present only basic net income (loss) per share.

Employee Stock Ownership Plan ("ESOP")

The ESOP is accounted for in accordance with AICPA Statement of Position ("SOP") 93-6. SOP 93-6 recognizes that the ESOP is a form of compensation. Compensation cost is based on the fair market value of shares released or deemed to be released for the period. Dividends on allocated shares retain the character of true dividends, but dividends on unallocated shares are considered compensation cost. As a leveraged ESOP with the Company as lender, a contra equity account is established to offset the

Company's note receivable. The contra account will change as compensation is recognized. Repurchase liability is disclosed as the current value of allocated shares.

Long-Lived Assets, Excluding Goodwill and Indefinite-Lived Intangible Assets

When there are indicators of impairment, the Company reviews the recoverability of its long-lived assets as required by Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. The Company has determined that no indicators of impairment of long-lived assets existed as of or during the fiscal year ended June 30, 2007.

Goodwill and Other Indefinite-Lived Intangible Assets

Under SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually and on an interim basis if events or changes in circumstances between annual tests indicate that an asset might be impaired. Under SFAS 142, indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units, including goodwill. If the fair value of the reporting unit is less than the carrying value, goodwill of the reporting unit is potentially impaired and the Company then completes Step 2 to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference.

Shipping and Handling Costs

The Company distributes its products directly to its customers and shipping and handling costs are recorded as Company selling expenses.

Collective Bargaining Agreements

Certain Company employees are subject to collective bargaining agreements. The duration of these agreements extend from calendar year 2007 to 2010.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

New Pronouncements

In September 2006 the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”). This new standard provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use

of fair value in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. The provisions of this statement must be implemented in the first quarter of the Company’s fiscal year 2008. The Company does not expect that the adoption of SFAS 157 will have a significant impact on the Company’s financial position and results of operations.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of SFAS 109, Accounting for Income Taxes (“FIN 48”), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 on July 1, 2007, as required. The cumulative effect of adopting FIN 48, if any, will be recorded in retained earnings and other accounts as applicable. The Company does not expect that the adoption of FIN 48 will have a significant impact on the Company’s financial position or results of operations.

Note 2. Investments and Derivative Instruments

The Company purchases various derivative instruments as investments or to create economic hedges of its interest rate risk and commodity price risk. At June 30, 2007 and 2006, derivative instruments are not designated as accounting hedges as defined by SFAS No. 133. The fair value of derivative instruments is based upon broker quotes. The Company records unrealized gains and losses on trading securities and changes in the market value of certain coffee contracts meeting the definition of derivatives in other income and expense.

Investments, consisting of marketable debt and equity securities and money market instruments, are held for trading purposes and are stated at fair value.

Investments at June 30, are as follows:

	2007	2006
	(In thousands)	
Trading securities at fair value		
U.S. Treasury Obligations	\$ 91,840	\$ 113,502
Preferred Stock	65,165	61,716
Futures, options and other derivatives	1,045	1,092
Other	0	26
	<u>\$ 158,050</u>	<u>\$ 176,336</u>

Gains and losses, both realized and unrealized, are included in Other, net income and expense. Gross realized gains/losses at June 30, are as follows:

	2007	2006	2005
	(In thousands)		
Gains	\$ 4,189	\$ 5,071	\$ 5,599

Note 3. Inventories

<u>June 30, 2007</u>	<u>Processed</u>	<u>Unprocessed</u>	<u>Total</u>
		(In thousands)	
Coffee	\$ 6,916	\$ 12,103	\$ 19,019
Allied products	14,501	3,299	17,800
Coffee brewing equipment	2,120	6,057	8,177
	<u>\$ 23,537</u>	<u>\$ 21,459</u>	<u>\$ 44,996</u>
 <u>June 30, 2006</u>	 <u>Processed</u>	 <u>Unprocessed</u>	 <u>Total</u>
Coffee	\$ 4,949	\$ 12,735	\$ 17,684
Allied products	15,556	4,487	20,043
Coffee brewing equipment	1,528	5,753	7,281
	<u>\$ 22,033</u>	<u>\$ 22,975</u>	<u>\$ 45,008</u>

Current cost of coffee and allied product inventories is greater than the LIFO cost by approximately \$18,467,000 and \$18,750,000 as of June 30, 2007 and 2006, respectively.

The change in the Company's green coffee and allied product inventories during fiscal 2007, 2006, and 2005 resulted in LIFO (increments)/decrements which resulted in a net increase (decrease) in gross profit for those years by \$1,969,000, (\$971,000) and (\$1,747,000), respectively.

Note 4. Property, Plant and Equipment

	<u>2007</u>	<u>2006</u>
	(In thousands)	
Buildings and facilities	\$ 51,510	\$ 47,561
Machinery and equipment	56,439	50,375
Capitalized software costs	14,321	14,318
Office furniture and equipment	8,305	6,824
	<u>\$ 130,575</u>	<u>\$ 119,078</u>
Accumulated depreciation	(86,502)	(79,166)
Land	8,594	6,473
Total property, plant and equipment	<u>\$ 52,667</u>	<u>\$ 46,385</u>

Maintenance and repairs charged to expense for the years ended June 30, 2007, 2006 and 2005 were \$12,417,000, \$12,112,000 and \$10,719,000, respectively.

Note 5. Employee Benefit Plans

The Company provides pension plans for most full time employees. Generally the plans provide benefits based on years of service and/or a combination of years of service and earnings. Retirees are also eligible for medical and life insurance benefits.

In September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This standard requires recognition of the funded status of a benefit plan in the balance sheet. The standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective as of the end of fiscal years ending after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company adopted the recognition provisions

of SFAS No.158 and applied them to the funded status of its defined benefit and postretirement plans resulting in a decrease in stockholders' equity of \$8.8 million.

**Incremental Effect of Applying FASB Statement No. 158
on Individual Line Items in the Statement of Financial Position**

	<u>Before Application of Statement 158</u>	<u>Pension Adjustments</u>	<u>Post Retirement Medical Adjustments</u>	<u>After Application of Statement 158</u>
Pension and other non-current assets	\$ 17,240	\$ (4,216)		\$ 13,024
Deferred income taxes (noncurrent)	10,009	1,632	\$ 3,956	15,597
Total assets	336,237	(2,584)	3,956	337,609
Current liabilities	25,538		1,558	27,096
Accrued postretirement benefits	35,635		8,662	44,297
Accumulated other comprehensive loss	0	(2,584)	(6,264)	(8,848)
Total stockholders' equity	\$ 275,064	\$ (2,584)	\$ (6,264)	\$ 266,216

The Company contributes to two multi-employer defined benefit plans for certain union employees. The contributions to these multi-employer pension plans were approximately \$2,373,000, \$2,366,000 and \$2,278,000 for the fiscal years ended June 30, 2007, 2006 and 2005, respectively.

Company Pension Plans

The Company has a defined benefit plan for employees not covered under a collective bargaining agreement (Farmer Bros. Plan) and defined benefit pension plan (Brewmatic Plan) for certain hourly employees covered under a collective bargaining agreement. All assets and benefit obligations were determined using a measurement date of June 30.

Components of Net Periodic Benefit Cost and Other Changes Recognized in Other Comprehensive Income (OCI)

	Farmer Bros. Plan Years ended June 30, <u>2007</u> <u>2006</u> (In thousands)		Brewmatic Plan Years ended June 30, <u>2007</u> <u>2006</u> (In thousands)	
Components of net periodic benefit cost				
Service cost	\$ 2,053	\$ 2,756	\$ 41	\$ 58
Interest cost	4,759	4,310	209	200
Expected return on plan assets	(6,666)	(6,346)	(287)	(278)
Amortization of net (gain)/loss	2	924	33	82
Amortization of prior service cost/(credit)	7	7	53	56
Net periodic benefit cost	<u>\$ 155</u>	<u>\$ 1,651</u>	<u>\$ 49</u>	<u>\$ 118</u>
Other Changes Recognized in OCI				
Net (gain)/loss	\$ (5,063)	N/A*	\$ (247)	N/A*
Prior service cost/(credit)	0	N/A*	0	N/A*
Amortization of net gain/(loss)	(2)	N/A*	(34)	N/A*
Amortization of transition asset/(obligation)	0	N/A*	0	N/A*
Amortization of prior service (cost)/credit	(7)	N/A*	(53)	N/A*
Total recognized in other comprehensive income	<u>\$ (5,072)</u>	<u>N/A*</u>	<u>\$ (334)</u>	<u>N/A*</u>
Total recognized in net periodic benefit cost and OCI	<u>\$ (4,917)</u>	<u>N/A*</u>	<u>\$ (285)</u>	<u>N/A*</u>
Weighted-average assumptions used to determine net periodic benefit cost				
Discount rate	6.25%	5.30%	6.25%	5.30%
Expected long-term return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

* These items are new this year due to the application of SFAS 158. Retrospective application is not required.

Basis Used to Determine Expected Long-term Return on Plan Assets

Historical and future projected returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan.

Additional Disclosures

	Farmer Bros. Plan Years ended June 30, <u>2007</u> <u>2006</u> (In thousands)		Brewmatic Plan Years ended June 30, <u>2007</u> <u>2006</u> (In thousands)	
Comparison of obligations to plan assets				
Projected benefit obligation	\$ 83,576	\$ 77,896	\$ 3,526	\$ 3,456
Accumulated benefit obligation	76,482	71,687	3,526	3,456
Fair value of plan assets at measurement date	95,557	84,960	4,076	3,697
Plan assets by category				
Equity securities	70%	69%	71%	69%
Debt securities	22%	22%	21%	22%
Real Estate	8%	9%	8%	9%
Total	100%	100%	100%	100%

Our investment strategy is to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment markets outlook utilizes both the historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the specific needs of each plan. The core asset allocation utilizes multiple investment managers in order to maximize the plan's return while minimizing risk.

Target Plan Asset Allocation

	2007
Equity securities	67.50%
Debt securities	24.00%
Real estate	8.50%
Total	100.00%

Estimated Future Contributions and Refunds

The Company expects to make no contributions to the Farmer Bros. Co. Plan in fiscal 2008, but expects to contribute approximately \$26,000 to the Brewmatic Co. Plan in fiscal 2008. The Company is not aware of any refunds expected from postretirement plans.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid over the next 10 fiscal years ending:

Year ending	Farmer Bros. Plan (In thousands)	Brewmatic Plan (In thousands)
June 30, 2008	\$ 3,600	\$ 270
June 30, 2009	\$ 3,750	\$ 270
June 30, 2010	\$ 3,950	\$ 290
June 30, 2011	\$ 4,130	\$ 340
June 30, 2012	\$ 4,340	\$ 360
June 30, 2013 - June 30, 2017	\$ 25,530	\$ 1,840

These amounts are based on current data and assumptions and reflect expected future service, as appropriate.

Defined Contribution Plans

The Company also has defined contribution plans for all its eligible employees. No Company contributions have been made nor are any required to be made to these defined contribution plans during the years ended June 30, 2007, 2006 or 2005. CBI has a defined contribution plan for all of its eligible employees. Total contributions to that plan were \$4,000 in the fiscal year ended June 30, 2007.

Post Retirement Benefits

The Company sponsors defined benefit postretirement medical and dental plans that cover non-union employees and retirees, and certain union locals. The plan is contributory and retiree contributions are fixed at a current level. The plan is not funded.

Change in Benefit Obligation	Fiscal	
	2007	2006
	(In thousands)	
Accumulated Post Retirement Benefit Obligation ("APBO") at Beginning of Year	\$ 29,849	\$ 33,656
Service Cost	1,648	1,269
Interest Cost	2,286	1,651
Plan Change	14,514	7,175
(Gains)/Losses	(1,523)	(12,688)
Benefits Paid	(918)	(1,214)
APBO at End of Year	\$ 45,856	\$ 29,849
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	\$ 0	\$ 0
Actual Return on Assets	918	1,214
Employer Contribution	0	0
Participant Contributions	0	0
Benefits Paid	(918)	(1,214)
Fair Value of Plan Assets at End of Year	\$ 0	\$ 0
Funded Status of Plan		
Funded Status	\$ (45,855)	\$ (29,849)
Unrecognized actuarial (gain)/loss	*	(8,967)
Unrecognized transition (asset)/obligation	*	0
Unrecognized prior service cost	*	7,380
Net amount recognized as of measurement date	*	\$ (31,436)
Contributions made after measurement date	*	0
Net amount recognized as of year end	*	\$ (31,436)

* This information is not required as part of current year disclosure.

Amounts Recognized in the Statement of Financial Position Consist of:

Current liabilities	\$ 1,588	**
Noncurrent liabilities	44,297	**
Total	\$ 45,885	**

Amounts Recognized in Accumulated Other Comprehensive Income Consist of:	Fiscal	
	2007	2006
	(In thousands)	
Net (gain)/loss	\$(10,165)	**
Transition (asset)/obligation	0	**
Prior service cost	20,385	**
Total recognized in accumulated comprehensive income	\$ 10,220	**
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Unrecognized actuarial (gain)/loss	*	**
Unrecognized transition (asset)/obligation	*	**
Unrecognized prior service cost	*	**
Total recognized in other comprehensive income	*	**
Amortization of net loss (gain)	*	**
Amortization of transition obligation (asset)	*	**
Amortization of prior service cost	*	**
Total recognized in net periodic benefit cost and other comprehensive income	*	**

The estimated net loss and prior service cost for the other postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$382,000 and \$2,175,000, respectively.

* This information is not required as part of current year disclosure.

** This information was not required as part of prior year disclosure.

Change in Accumulated Other Comprehensive Income		
Amount disclosed at beginning of year	\$ 0	**
Change during year prior to SFAS 158 adoption	0	**
Change due to the adoption of SFAS 158	10,220	**
Amount disclosed at end of year	\$ (10,220)	**
Incremental effect of change to SFAS 158		
Prepaid benefit cost	—	**
Accrued benefit cost***	\$ (10,220)	**

* This information is not required as part of current year disclosure.

** This information was not required as part of prior year disclosure.

*** This is an increase in Accrued Benefit Cost.

**Estimated Future Benefit Payments
(in thousands)**

Year ending	
June 30, 2008	\$ 1,558
June 30, 2009	1,672
June 30, 2010	1,892
June 30, 2011	2,139
June 30, 2012	2,292
June 30, 2013 - June 30, 2017	15,353

Expected Contributions for the Year ending June 30, 2008	(In thousands)
Total	\$ 1,558

Components of Net Periodic Postretirement Benefit Cost	Fiscal	
	2007	2006
	(In thousands)	
Service cost	\$ 1,647	\$ 1,269
Interest cost	2,286	1,650
Expected return on assets	0	0

Amortization of unrecognized net (gain)/loss	(324)	(151)
Amortization of unrecognized prior service cost	0	0
Total net periodic postretirement benefit cost/(income)	\$ 1,508	\$ 841
	<u>\$ 5,117</u>	<u>\$ 3,609</u>

Sensitivity in Fiscal 2007 Results

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects in fiscal 2008:

	<u>1-Percentage Point</u>	
	<u>Increase</u>	<u>Decrease</u>
	<u>(In thousands)</u>	
Effect on total of service and interest cost components	\$ 722	\$ (556)
Effect on accumulated postretirement benefit obligation	\$8,988	\$ (7,010)

Note 6. Employee Stock Ownership Plan

The Farmer Bros. Co. Employee Stock Ownership Plan (ESOP) was established in 2000 to provide benefits to all employees. The plan is a leveraged ESOP in which Company is the lender. The loan will be repaid from the Company's discretionary plan contributions over a fifteen year term with a variable rate of interest, 6.78% at June 30, 2007.

	<u>As of and for the years ended June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Loan amount (in thousands)	\$49,640	\$ 54,441	\$ 59,242
Shares purchased	—	—	—

Shares are held by the plan trustee for allocation among participants as the loan is repaid. The unencumbered shares are allocated to participants using a compensation-based formula. Subject to vesting requirements, allocated shares are owned by participants and shares are held by the plan trustee until the participant retires.

The Company reports compensation expense equal to the fair market price of shares committed to be released to employees in the period in which they are committed. The cost of shares purchased by the ESOP which have not been committed to be released or allocated to participants are shown as a contra-equity account "Unearned ESOP Shares" and are excluded from earnings per share calculations.

During the fiscal years ended June 30, 2007, 2006 and 2005 the Company charged \$5,863,000, \$5,312,000 and \$6,127,000 to compensation expense related to the ESOP. The difference between cost and fair market value of committed to be released shares, which was (\$695,000), (\$774,000) and \$44,000 for the years ended June 30, 2007, 2006 and 2005, respectively, is recorded as additional paid-in capital.

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Allocated shares	846,735	628,792
Committed to be released shares	110,000	119,440
Unallocated shares	2,029,280	2,242,665
Total ESOP shares	<u>2,986,015</u>	<u>2,990,897</u>
	<u>(In thousands)</u>	
Fair value of ESOP shares	\$ 67,723	\$ 64,737

Note 7. Other Current Liabilities

Other current liabilities consist of the following:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
	<u>(In thousands)</u>	
Accrued workers' compensation liabilities	\$ 4,372	\$ 4,052
Dividends payable	1,768	1,688
Postretirement medical liability	1,558	0
Other (including net taxes payable)	3,216	406
	<u>\$ 10,914</u>	<u>\$ 6,146</u>

Note 8. Income Taxes

The current and deferred components of the provision for income taxes consist of the following:

	<u>June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>(In thousands)</u>		
Current:			
Federal	\$ 2,511	\$ 3,124	\$ (1,703)
State	74	1,126	(689)
Total current position	\$ 2,585	\$ 4,250	\$ (2,392)
Deferred:			
Federal	\$ (1,864)	\$ (4,338)	\$ (1,165)

State	(689)	(663)	(2,345)
Total deferred position	\$ (2,553)	\$ (5,001)	\$ (3,510)
Total tax provision	<u>\$ 33</u>	<u>\$ (751)</u>	<u>\$ (5,902)</u>

A reconciliation of income tax expense (benefit) to the federal statutory tax rate is as follows:

	2007	June 30, 2006	2005
Federal statutory tax rate	34%	34%	34%
	(In thousands)		
Income tax expense at statutory rate	\$ 2,328	\$ 1,362	\$ (3,852)
State income tax (net of federal tax benefit)	55	206	(696)
Officer life insurance proceeds	0	0	0
Dividend income exclusion	(918)	(849)	(819)
Valuation allowance	0	(1,379)	1,379
Change in contingency reserve (net)	358	406	(2,492)
Research tax credit	(945)		
Other (net)	(845)	(497)	578
	<u>\$ 33</u>	<u>\$ (751)</u>	<u>\$ (5,902)</u>
Income taxes paid	<u>\$ 116</u>	<u>\$ 2,301</u>	<u>\$ 2,356</u>

The primary components of temporary differences which give rise to the Company's net deferred tax assets are as follows:

	2007	June 30, 2006
	(In thousands)	
Deferred tax assets:		
Postretirement benefits	17,749	\$ 12,187
Accrued liabilities	3,643	3,266
Capital loss carryover	3,270	2,807
Other	1,186	1,808
	<u>\$ 25,848</u>	<u>\$ 20,068</u>
Deferred tax liabilities:		
Pension assets	\$ (4,851)	\$ (6,563)
Unrealized gain on investments	(448)	(449)
Other	(2,489)	(3,139)
	<u>\$ (7,789)</u>	<u>\$ (10,151)</u>
Valuation allowance	0	0
Net deferred tax assets	<u>\$ 18,059</u>	<u>\$ 9,917</u>

The Company has approximately \$7.7 million and \$13.7 million of federal and state capital loss carry forwards, respectively, that will expire on June 30, 2010, unless previously utilized. During the year ended June 30, 2006, the valuation allowance related to the capital loss carry forwards was released as management believes realization is more likely than not based upon projected generation of capital gains prior to the expiration of the carry forward period, based on facts and circumstances at this time.

Note 9. Commitments and Contingencies

The Company incurred rent expense of approximately \$914,000, \$907,000 and \$779,000 for the fiscal years ended June 30, 2007, 2006 and 2005, respectively, and is obligated under leases for branch warehouses. Some leases have renewal options that allow the Company, as lessee, to extend the lease at the Company's option for one or two years at a pre-agreed rental rate. The Company also has operating leases for computer hardware with terms that do not exceed three years.

Future minimum lease payments for future fiscal years are as follows:

	(In thousands)
2008	\$ 1,105
2009	520
2010	333
2011	86
2012	23
Total	<u>\$ 2,067</u>

The Company is a party to various pending legal and administrative proceedings. It is management's opinion that the outcome of such proceedings will not have a material impact on the Company's financial position, results of operations, or cash flows.

Note 10. Quarterly Financial Data (Unaudited)

	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007
	(In thousands except share data)			
Net sales	\$ 48,264	\$ 55,476	\$ 54,382	\$ 58,137
Gross profit	\$ 28,083	\$ 32,481	\$ 31,664	\$ 34,539
(Loss) income from operations	\$ (2,737)	\$ 1,140	\$ (2,247)	\$ (232)
Net income	\$ 1,013	\$ 2,953	\$ 1,512	\$ 1,337
Net income per common share	\$ 0.07	\$ 0.21	\$ 0.11	\$ 0.09

	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006
	(In thousands except share data)			
Net sales	\$ 48,424	\$ 54,950	\$ 53,561	\$ 50,518
Gross profit	\$ 28,885	\$ 33,154	\$ 32,039	\$ 28,465
(Loss) income from operations	\$ (1,124)	\$ 3,149	\$ 67	\$ (5,057)
Net (loss) income	\$ (1,079)	\$ 4,164	\$ 2,463	\$ (792)
Net (loss) income per common share	\$ (0.08)	\$ 0.30	\$ 0.18	\$ (0.06)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures.

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As of June 30, 2007 our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of June 30, 2007, our disclosure controls and procedures were (1) designed to ensure that material information relating to our Company is accumulated and made known to our management, including our Chief Executive Officer and Chief Financial Officer, in a timely manner, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management believes, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control deficiencies and instances of fraud, if any, within a company have been detected.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2007.

On April 27, 2007, the Company acquired CBH, and its wholly owned subsidiary CBI. Due to the timing of the acquisition, CBH, and its wholly owned subsidiary CBI, were not included in management's assessment and report on internal control over financial reporting as of June 30, 2007, the year the acquisition closed. CBI's operations since the acquisition are included in the 2007 consolidated financial statements of Farmer Bros. Co. and its subsidiaries and constitutes 8% of total assets and 8% of net assets, respectively, as of June 30, 2007, and 3% of net sales and (18%) of net income for the year then ended.

Ernst & Young LLP, an independent registered public accounting firm, issued an attestation report on the Company's internal control over financial reporting as of June 30, 2007, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended June 30, 2007, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Farmer Bros. Co. and Subsidiaries

We have audited Farmer Bros. Co. and Subsidiaries' internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Farmer Bros. Co. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

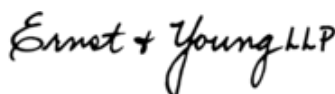
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Coffee Bean International, Inc. (CBI), which is included in the 2007 consolidated financial statements of Farmer Bros. Co. and Subsidiaries and constituted 8% and 8% of total assets and net assets, respectively, as of June 30, 2007, and 3% and (18%) of net sales and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Farmer Bros. Co. and Subsidiaries also did not include an evaluation of the internal control over financial reporting of CBI.

In our opinion, Farmer Bros. Co. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Farmer Bros. Co. and Subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2007 of Farmer Bros. Co. and Subsidiaries and our report dated September 10, 2007 expressed an unqualified opinion thereon.



Los Angeles, California
September 10, 2007

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be subsequently incorporated herein by reference to our Proxy Statement expected to be dated and filed with the SEC on or before October 28, 2007.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended June 30, 2007, its officers, directors and ten percent stockholders complied with all applicable Section 16(a) filing requirements, with the exception of those filings listed in the Company's Proxy Statement expected to be dated and filed with the SEC on or before October 28, 2007.

Item 11. Executive Compensation

The information required by this item will be subsequently incorporated herein by reference to our Proxy Statement expected to be dated and filed with the SEC on or before October 28, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be subsequently incorporated herein by reference to our Proxy Statement expected to be dated and filed with the SEC on or before October 28, 2007.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be subsequently incorporated herein by reference to our Proxy Statement expected to be dated and filed with the SEC on or before October 28, 2007.

Item 14. Principal Accountant Fees and Services

The information required by this item will be subsequently incorporated herein by reference to our Proxy Statement expected to be dated and filed with the SEC on or before October 28, 2007.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of Financial Statements and Financial Statement Schedules:

1. Financial Statements included in Item 8:
Consolidated Balance Sheets as of June 30, 2007 and 2006.
Consolidated Statements of Operations for the Years Ended
June 30, 2007, 2006 and 2005.
Consolidated Statements of Cash Flows for the Years Ended
June 30, 2007, 2006 and 2005.
Consolidated Statements of Stockholders' Equity for the Years
Ended June 30, 2007, 2006 and 2005.
Notes to Consolidated Financial Statements.

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2. Financial Statement Schedules: Financial Statement Schedules are omitted as they are not applicable, or the required information is given in the consolidated financial statements and notes thereto.

3. The exhibits to this Annual Report on Form 10-K are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of the Annual Report on Form 10-K.

Each management contract or compensation plan required to be filed as an exhibit is identified by an asterisk (*).

(b) Exhibits: See Exhibit Index

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FARMER BROS. CO.

By: /s/ GUENTER W. BERGER
Guenter W. Berger,
Chairman and Chief Executive Officer
Date: September 10, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GUENTER W. BERGER</u> Guenter W. Berger	Chairman and Chief Executive Officer (principal executive officer)	September 10, 2007
<u>/s/ JOHN E. SIMMONS</u> John E. Simmons	Treasurer and Chief Financial Officer (principal financial and accounting officer)	September 10, 2007
<u>/s/ ROGER M. LAVERTY III</u> Roger M. Lavery III	Director, President and Chief Operating Officer	September 10, 2007
<u>/s/ JOHN H. MERRELL</u> John H. Merrell	Director	September 10, 2007

<u>/s/ THOMAS A. MALOOF</u> Thomas A. Maloof	Director	September 10, 2007
<u>/s/ JOHN SAMORE, JR.</u> John Samore, Jr.	Director	September 10, 2007
<u>/s/ CAROL FARMER WAITE</u> Carol Farmer Waite	Director	September 10, 2007
<u>/s/ JAMES J. MCGARRY</u> James J. McGarry	Director	September 10, 2007

EXHIBIT INDEX

- 3.1 Certificate of Incorporation (filed as an exhibit to the Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- 3.2 Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 8, 2006 and incorporated herein by reference).
- 4.1 Certificate of Designations of Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 17, 2005 and incorporated herein by reference).
- 4.2 Rights Agreement dated March 17, 2005 by and between Farmer Bros. Co. and Wells Fargo Bank, N.A., as Rights Agent (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 17, 2005 and incorporated herein by reference).
- 10.1 The Farmer Bros. Co. Pension Plan for Salaried Employees (filed herewith).*
- 10.2 Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on October 12, 2005 and incorporated herein by reference).*
- 10.3 Form of Notification Letter Under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the SEC on October 12, 2005 and incorporated herein by reference).*
- 10.4 Form of Award Letter (Fiscal 2006) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on August 30, 2006 and incorporated herein by reference).*
- 10.5 The Farmer Bros. Co. Employee Stock Ownership Plan (filed herewith).*
- 10.6 Farmer Bros. Co. Employee Stock Ownership Plan Amendment 2 (filed as an exhibit to the Form 10-Q for the quarter ended December 31, 2003 and incorporated herein by reference).*
- 10.7 Farmer Bros. Co. Employee Stock Ownership Plan Amendment 3 (filed as an exhibit to the Form 10-Q for the quarter ended December 31, 2003 and incorporated herein by reference).*
- 10.8 Loan Agreement dated July 21, 2003 between the Company and Wells Fargo Bank, Trustee of the Farmer Bros Co. Employee Stock Ownership Plan (filed as an exhibit to the Form 10-Q for the quarter ended December 31, 2003 and incorporated herein by reference).
- 10.9 Form of Change in Control Severance Agreements entered into with each of the following officers: Guenter Berger, Michael J. King and John E. Simmons (filed as an exhibit to the Form 10-Q for the quarter ended March 31, 2005 and incorporated herein by reference).*
- 10.10 Change in Control Severance Agreement (Laverty), dated as of June 2, 2006, by and between Farmer Bros. Co. and Roger M. Laverty III (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on June 8, 2006 and incorporated herein by reference).*
- 10.11 Employment Agreement, dated as of June 2, 2006, by and between Farmer Bros. Co. and Roger M. Laverty III (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 8, 2006 and incorporated herein by reference).*
- 10.12 Form of 2007 Target Award Notification Letter under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 22, 2006 and incorporated herein by reference).*

- 10.13 Stock Purchase Agreement, dated April 27, 2007, by and among Farmer Bros. Co., Coffee Bean Holding Co., Inc., and the Stockholders of Coffee Bean Holding Co., Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2007 and incorporated herein by reference).
 - 10.14 2007 Omnibus Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 29, 2007 and incorporated herein by reference).*
 - 10.15 Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on May 18, 2006 (with schedule of indemnitees attached) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 29, 2007 and incorporated herein by reference).*
 - 10.16 Form of Award Letter (Fiscal 2007) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 29, 2007 and incorporated herein by reference).*
 - 21.1 List of all Subsidiaries of Farmer Bros. Co. (filed herewith)
 - 31.1 Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
 - 31.2 Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
 - 32.1 Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
 - 32.2 Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
 - 99.1 Properties List
-

* Management contract or compensatory plan or arrangement.

**FARMER BROS. CO.
PENSION PLAN FOR SALARIED EMPLOYEES**

FARMER BROS. CO. RETIREMENT PLAN

Amendment and Restatement
Effective January 1, 2001

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PREAMBLE TO
FARMER BROS. CO. RETIREMENT PLAN

The Farmer Bros. Co. Retirement Plan (the “Plan”) was originally adopted, effective July 1, 1964, by Farmer Bros. Co. for the benefit of its employees. The Plan was subsequently amended on various occasions, and restated effective January 1, 1982 (the “Prior Plan”).

This document constitutes the terms of the Plan, as amended and restated effective January 1, 1989, except as otherwise provided herein. This document incorporates Amendment 1 through Amendment 6 to the Prior Plan. In addition, it is intended that this document include all additional amendments necessary for the Plan to remain qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended by the Tax Reform Act of 1986, the Omnibus Budget Reconciliation Act of 1986, the Omnibus Budget Reconciliation Act of 1987, the Technical and Miscellaneous Revenue Act of 1988, the Omnibus Budget Reconciliation Act of 1989, the Unemployment Compensation Amendments of 1992, and the Omnibus Budget Reconciliation Act of 1993.

Effective January 1, 2001, except as stated herein, the Plan is hereby amended and restated in its entirety to comply with the following acts of legislation known collectively as GUST:

General Agreement on Tariffs and Trade enacted in 1994 [also known as The Uruguay Round Agreements Act] (GATT)
Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)
Small Business Job Protection Act of 1996 (SBJPA ‘96)
Taxpayer Relief Act of 1997 (TRA ‘97)

Article 1. Definitions

The following words and phrases, when used in the Plan with an initial capital letter, shall have the following meanings, unless the context clearly indicates otherwise:

1.01 “Accrued Pension” means, as of any Determination Date, the normal retirement Pension, payable commencing on the Participant’s Normal Retirement Date, or immediately if the Participant has already attained his Normal Retirement Age, computed under Section 5.01(b) on the basis of the Participant’s Final Average Compensation and Benefit Service to the Determination Date.

1.02 “Accrued Pension Derived from Employer Contributions” means, as of any Determination Date, the excess, if any, of a Participant’s Accrued

Pension over his Accrued Pension Derived from Participant Contributions.

1.03 “Accrued Pension Derived from Participant Contributions” means the portion of a Participant’s Accrued Pension payable at age 65, or current age if later than age 65, funded with his Accumulated Contributions. The Accrued Pension Derived from Participant Contributions shall be equal to the Actuarial Equivalent of the Participant’s Accumulated Contributions, credited with interest, compounded annually at the IRS Interest Rate (the Section 417 Interest Rate prior to January 1, 2000) for the period beginning on the Determination Date and ending on the later of the Participant’s Normal Retirement Age or Annuity Starting Date, expressed as an annual benefit payable at age 65, or current age if later than age 65, in the form described in Section 7.01.

1.04 “Accumulated Contributions” means, with respect to a Participant, his Participant Contributions credited with interest, compounded annually at the rate of:

(a) 3% per annum through December 31, 1975;

(b) 5% per annum for the period beginning January 1, 1976, and ending December 31, 1987; and

(c) 120% of the Federal mid-term rate (as in effect under Section 1274 of the Code for the first month of the applicable Plan Year) for the period beginning January 1, 1988, and ending on the Determination Date.

1.05 “Actuarial Equivalent” means the equivalent, payable in an alternate form or at an alternate time, of a benefit payable in a normal form under the Plan as described in Section 7.01. Such equivalent shall generally be calculated based on a rate of interest of 6.5, utilizing the 1971 Group Annuity Mortality Table for Males.

With respect to the calculation of lump sum payments in accordance with Section 4.02(e), 7.02(b), 7.03(a)(iii) and 12.01(b), the interest rate utilized prior to January 1, 2000 shall be the lesser of 6.5% or the Section 417 Interest Rate.

Notwithstanding the above, for the purpose of determining lump sums on and after January 1, 2000 and ending on the date this Plan is adopted, Actuarial Equivalent shall be based on one of the following assumptions, whichever produces the greater benefit:

(a) The IRS Interest Rate and the IRS Mortality Table.

(b) The 1971 Group Annuity Mortality Table for Males and an interest rate equal to the lesser of (a) 6.5% or (b) the Section 417 Interest Rate.

For lump sum payments determined after the date this Plan is adopted, Actuarial Equivalent shall be based on one of the following assumptions, whichever produces the greater benefit:

(a) The IRS Interest Rate and the IRS Mortality Table.

(b) The 1971 Group Annuity Mortality Table for Males and an interest rate equal to 6.5%.

1.06 “Administrative Committee” means the committee appointed pursuant to Article 9.

1.07 “Affiliated Employer” means any company not participating in the Plan which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) with the Employer; any trade or business under common control (as defined in Section 414(c) of the Code) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code. Notwithstanding the foregoing, for purposes of Sections 1.30(b) and 6.01, the definitions in Sections 414(b) and 414(c) of the Code shall be modified as provided in Section 415(h) of the Code.

1.08 “Alternate Accrued Pension Derived from Participant Contributions” is equal to the Participant’s Accumulated Contributions divided by 10, or an actuarially equivalent factor in the event the Participant’s Annuity Starting Date is later than his Normal Retirement Age. Notwithstanding the foregoing, the Participant’s Alternate Accrued Pension Derived from Participant Contributions shall not exceed his Accrued Pension Derived from Participant Contributions.

1.09 “Annuity Starting Date” means, with respect to a Participant, the applicable of:

(a) The first day of the first period for which an amount is payable as an annuity under the Plan, or

(b) Where the benefit is not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to his benefit under the Plan.

1.10 “Beneficiary” means any person, persons or entity named by a Participant by written designation filed with the Administrative Committee to receive benefits payable in the event of the Participant’s death. However, if the Participant is married, his Spouse shall be deemed to be the Beneficiary unless or until he elects another Beneficiary by a written designation filed with the Administrative Committee. Any such designation shall not be effective without

Spousal Consent. If no such designation is in effect at the time of death of the Participant, or if no person, persons or entity so designated shall survive the Participant, the Participant's estate shall be deemed to be the Beneficiary.

1.11 "Benefit Service" means, with respect to any Participant, the period beginning on the Participant's Enrollment Date and ending on his Severance from Service Date, subject to the following:

(a) Prior to July 1, 1964, Benefit Service shall not be credited:

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- (i) Until the later of the date the Participant (A) attains age 35, or (B) completes one Year of Eligibility Service;
 - (ii) For any period credited for retirement benefits under any other pension plan to which the Employer contributes; and
 - (iii) Unless the Participant elects to become a participant as of the date he is first eligible to do so.

(b) If the Participant is absent from the service of the Employer or an Affiliated Employer because of service in the uniformed services of the United States and if the Participant returns to the service of the Employer or an Affiliated Employer, having applied to return while his reemployment rights were protected by law, and makes all Participant Contributions as required under Plan Section 3.07, that absence shall be included in his Benefit Service;

(c) If the Participant is on a Leave of Absence approved by the Employer under rules uniformly applicable to all Employees similarly situated, the Employer may authorize the inclusion in his Benefit Service of any portion of that period of leave;

(d) Service during a period in which a Participant fails to make the contributions required under Section 3.01 shall not count as Benefit Service hereunder;

(e) Service with any other company which has been or may later be acquired by the Employer or an Affiliated Employer shall count only as required by law or as may be determined by the Company;

(f) With respect to the month that includes the Participant's Enrollment Date, a Participant shall be credited with one full month of Benefit Service if the Participant's Enrollment Date is on or before the 15th day of the month; with respect to the month that includes the Participant's Severance from Service Date, a Participant shall be credited with one full month of Benefit Service if the Participant's Severance from Service Date is on or after the 15th day of the month; otherwise partial months of Benefit Service shall be disregarded; and

(g) Service with the Employer or an Affiliated Employer on and after July 1, 1964, while the Employee is a Union Employee shall count provided that:

(i) The Employee is credited with an Hour of Service on or after January 1, 1995, or is on an approved Leave of Absence as of January 1, 1995;

(ii) The Employee makes Participant Contributions during the 60 months required by Section 3.01;

(iii) The Employee does not terminate his employment with the Employer and all Affiliated Employers prior to the date the Employee reaches his earliest Early Retirement Date; and

(iv) The Employee provides the Administrative Committee with the information it deems necessary to determine the amount of any pension payable to the Employee under the terms of a defined benefit pension plan to which the Employer contributes, directly or indirectly, to the extent that such pension is based on a period of employment with the Employer for which the Employee receives credit for Pension benefits under this Section 1.11(g); and

(h) If the Participant incurs a Break in Service, and he is subsequently rehired, the Participant's Benefit Service accrued after reemployment shall be aggregated with his Benefit Service accrued prior to the Break in Service only if (i) the Participant was vested in his Accrued Pension Derived from Employer Contributions, or (ii) (A) the Participant's consecutive one-year Breaks in Service do not equal or exceed the greater of five years or his Years of Vesting Service before the Break in Service, and (B) the Participant is credited with at least one Year of Vesting Service after his Break in Service. If the Participant's Break in Service ended prior to January 1, 1985, or if he had a Break in Service on December 31, 1984, and the number of his consecutive one-year Breaks in Service as of that date exceeded his Years of Vesting Service under the Plan provisions then in effect, then his previously accrued Benefit Service shall be excluded.

1.12 "Board of Directors" means the Board of Directors of the Company.

1.13 "Break in Service" means any Plan Year in which an Employee completes less than 501 Hours of Service. A Break in Service shall not occur during a layoff that is less than one year in duration, or an approved Leave of Absence or a period of military service which is included in a Participant's Benefit Service pursuant to Sections 1.11(b) and (c).

1.14 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

1.15 "Company" means Farmer Bros. Co., and any successor by merger, purchase or otherwise, with respect to its employees.

1.16 "Compensation" means wages as defined in Section 3401(a) of the Code (for purposes of income tax withholding at the source), but determined without regard to any rules under Section 3401(a) of the Code that limit the remuneration included in wages based on the nature or location of the employment or the services performed (e.g., the exception for agricultural labor in Section 3401(a)(2)). However, for purposes of the Plan, Compensation shall:

(a) Include any salary deferral reductions pursuant to Section 401(k) of the Code or pursuant to a cafeteria plan as described in Section 125 of the Code;

(b) Exclude any imputed income for auto allowances or company-paid life insurance for the Participant (including amounts for which the Employer or Affiliated Employer is required to furnish a

written statement pursuant to Section 6052 of the Code); and

(c) Not exceed the Maximum Compensation Limitation.

Prior to January 1, 1972, Compensation means the compensation paid to a Participant by the Employer for services performed, but excluding overtime pay, premium pay, commissions, bonuses, any benefits received under the Employer's salary continuation plans, and travel expense and other allowances.

1.17 "Determination Date" means the date as of which an Accrued Pension or other benefit is calculated.

1.18 "Disability" or "Disabled" means the total and permanent incapacity, as determined by the Administrative Committee based upon competent medical advice, of the Employee to engage in any occupation or perform any work for remuneration or profit by reason of any medically determinable injury, disease or mental impairment. In determining whether or not a Participant is and continues to be Disabled, the Administrative Committee may at any reasonable time require the Participant to submit to an examination by one or more physicians approved by the Administrative Committee. If the Participant refuses to submit to such examination, the Participant shall be deemed, for purposes of the Plan, to have recovered from his Disability.

Notwithstanding the foregoing, an Employee shall not be considered Disabled if the injury or disease (a) resulted from or consists of habitual drunkenness or addiction to narcotics, (b) was contracted, suffered or incurred while the Employee was engaged in, or resulted from his having engaged in, a criminal enterprise, (c) was intentionally self-inflicted, (d) arose while the Employee was absent without leave or layoff, (e) arose out of service in the armed forces of any country, or (f) arose as a result of or while engaged in his own business or in working for an employer other than the Employer.

1.19 "Early Retirement Date" means the first day of the calendar month on or immediately after the later of the date the Participant attains age 55 or completes five years of Benefit Service.

1.20 "Effective Date" means July 1, 1964.

1.21 "Eligible Employee" means an Employee other than:

(a) An Employee who is included in a unit of employees covered by a collective bargaining agreement between employee representatives and the Employer if there is evidence that retirement benefits were the subject of good faith bargaining and the agreement does not provide for such Employee's participation in the Plan,

(b) An Employee who is a nonresident alien and receives no United States source income,

(c) A Leased Employee, and

(d) An Employee who is employed in a division, unit, facility or class of Employees whom the Employer has determined in writing not to be covered by the terms of the Plan.

1.22 "Employee" means an individual employed by the Employer who meets the following requirements:

(a) the Employer withholds income tax on any portion of his or her income and Social Security contributions are made for him or her by the Employer, and

(b) such individual is determined by the Employer to be an Employee, for purposes of the Employer's payroll records.

"Employee" does not include a "Leased Employee," as defined in Code Section 414(n)(2). Only individuals who are paid as employees from an Employer payroll and are treated by the Employer as Employees will be considered Employees for purposes of the plan. Any individual who is treated as an independent contractor by the Employer is not an Employee. Also, an individual who renders services to the Employer pursuant to an agreement between the Employer and a leasing organization, temporary employment agency or any other organization is not an Employee. Any individual who is retroactively or in any other way held or found to be a "statutory" or "common law employee" of the Employer will not be eligible to participate in the Plan for any period he or she was not contemporaneously treated as an Employee by the Employer and considered by the Employer to be an Employee under this Section 1.22. In addition, such an individual will remain ineligible for participation in the Plan unless the Plan is amended to specifically render the individual eligible for Plan participation.

1.23 "Employer" means the Company, F.B.C. Finance Company, and any other company participating in the Plan as provided in Section 11.03 with respect to its employees.

1.24 "Enrollment Date" means the Effective Date and the first day of any pay period thereafter as of which an Employee who has met the Plan's eligibility requirements elects to commence participation in the Plan.

1.25 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.26 “Final Average Compensation” means the sixty (60) consecutive calendar months of Benefit Service during which the Participant’s average monthly Compensation is the highest out of the one hundred twenty (120) consecutive calendar months of Benefit Service immediately preceding the Participant’s date of termination, retirement or Disability. If the Participant has less than sixty (60) consecutive months of Benefit Service, his Final Average Compensation shall be equal to the monthly average of his Compensation during the total calendar months of his Benefit Service. Compensation earned during partial months of Benefit Service shall be ignored.

For purposes of this Section 1.26, months of Benefit Service shall be

considered consecutive if separated by (a) a Break in Service, (b) a period of layoff, (c) an unpaid leave of absence, (d) a period of non-covered service, or (e) a period during which no Participant Contributions are made.

1.27 “Highly Compensated Employee” means an Employee classified as a highly compensated employee as determined under Section 414(q) of the Code and any regulations issued thereunder. Notwithstanding the foregoing, for each Plan Year the Administrative Committee may elect to determine the status of Highly Compensated Employees under the simplified snapshot method described in IRS Revenue Procedure 93-42.

Effective for Plan Years beginning January 1, 1997, “Highly Compensated Employee” means an Employee who:

- (a) was a five percent (5%) owner during the current Plan Year or the preceding Plan Year; or
- (b) during the preceding Plan Year,
 - (1) received Section 414(s) Compensation of more than \$80,000 (or such larger amount as may be modified for cost-of-living adjustments by the Commissioner of the IRS); and
 - (2) if the Employer so elects, was a member of the top twenty percent (20%) of active Employees when ranked on the basis of Section 414(s) Compensation during the preceding Plan Year. Any election hereunder shall be made in accordance with regulations issued under section 414(q)(1) of the Code, as amended by section 1431(a) of the Small Business Job Protection Act of 1996. For purposes of determining the group with the highest twenty percent (20%) of Section 414(s) Compensation, employees described in Section 414(q)(8) of the Code and Q&A-9(b) of regulation section 1.414(q)-1T are excluded.

For purposes of determining Highly Compensated Employees, employers aggregated with the Employer under section 414(b), (c), (m) or (o) are treated as a single Employer.

1.28 “Hour of Service” means, for purposes of determining a Participant’s Benefit Service, each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer.

For purposes of determining an Employee’s Vesting and Eligibility Service, Hour of Service means, with respect to any applicable computation period-

- (a) Each hour for which the Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer,
- (b) Each hour for which the Employee is paid or entitled to payment by the Employer or an Affiliated Employer on account of a period

during which no duties are performed, whether or not the employment relationship has terminated, due to vacation, holiday, illness, incapacity (including Disability), layoff, jury duty, military duty or Leave of Absence, but not more than 501 hours for any single continuous period,

(c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or an Affiliated Employer, excluding any hour credited under (a) or (b), which shall be credited to the computation period or periods to which the award, agreement or payment pertains, rather than to the computation period in which the award, agreement or payment is made, and

(d) Solely for purposes of determining whether the Employee has incurred a Break in Service under the Plan, each hour for which the Employee would normally be credited under paragraph (a) or (b) above during a period of Parental Leave but not more than 501 hours for any single continuous period. However, the number of hours credited to the Employee under this paragraph (d) during the computation period in which the Parental Leave began, when added to the hours credited to the Employee under paragraphs (a) through (c) above during that computation period, shall not exceed 501. If the number of hours credited under this paragraph (d) for the computation period in which the Parental Leave began is zero, the provisions of this paragraph (d) shall apply as though the Parental Leave began in the immediately following computation period.

No hours shall be credited on account of any period during which the Employee performs no duties and receives payment solely for the purpose of complying with unemployment compensation, workers’ compensation or disability insurance laws. Hours of Service are also not required to be credited for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee. The Hours of Service credited shall be determined as required by Title 29 of the Code of Federal Regulations, Section 2530.200b-2(b) and (c).

1.29 “IRS Interest Rate” means the annual rate of interest on 30-year Treasury Securities as specified by the Commissioner for the November (the look-back month) preceding the Stability Period.

1.30 “IRS Mortality Table” means the mortality table prescribed by the Secretary of the Treasury under Code Section 417(e)(3)(A)(ii)(I) as in effect on the first day of the applicable Stability Period.

1.31 “Investment Manager” means the person (or organization), if any, to whom the Company has, pursuant to Section 10.03, delegated the responsibility and authority to manage, acquire or dispose of all or a designated portion of the assets of the Plan. The Investment Manager shall be (a) registered in good standing as an investment adviser under the Investment Advisers Act of 1940 (the “Act”), (b) a bank, as defined in the Act, or (c) an insurance company qualified to perform investment management services under the laws of more than one state of the United States. In addition, the Investment Manager shall acknowledge in writing that it is a fiduciary with respect to the management, acquisition and control of all or the designated portion of the assets

of the Plan.

1.32 “Leased Employee” means any person (other than a person described in Section 414(n)(5) of the Code) who is not otherwise an Employee of the Employer or an Affiliated Employer and who provides services to the Employer or an Affiliated Employer (the “Recipient”) if:

- (a) Such services are provided pursuant to an agreement between the Recipient and a “leasing organization”;
- (b) Such person has performed such services for the Recipient (or the Recipient and the Employer or an Affiliated Employer) on a substantially full-time basis for a period of at least one year; and
- (c) Effective for Plan Years beginning after December 31, 1996, such services are performed under the primary direction and control of the Employer.

1.33 “Leave of Absence” means an absence authorized by the Employer under its standard personnel practices as applied in a uniform and nondiscriminatory manner to all persons similarly situated.

1.34 “Maximum Compensation Limitation” means, effective on or after January 1, 1989, and before January 1, 1994, \$200,000 per year. As of January 1 of each calendar year on and after January 1, 1990, and before January 1, 1994, the Maximum Compensation Limitation as determined by the Commissioner of Internal Revenue for the calendar year shall become effective as the Maximum Compensation Limitation taken into account for Plan purposes for the Plan Year beginning within that calendar year in lieu of the \$200,000 limitation set forth above.

Commencing January 1, 1994, the Maximum Compensation Limitation means \$150,000 per year. If for any calendar year after 1994, the cost-of-living adjustment described in the following sentence is equal to or greater than \$10,000, then the Maximum Compensation Limitation (as previously adjusted hereunder) for any Plan Year beginning in any subsequent calendar year shall be increased by the amount of such cost-of-living adjustment, rounded to the next lowest multiple of \$10,000. The cost-of-living adjustment shall equal the excess of (i) \$150,000 increased by the adjustment made under Section 415(d) of the Code for the calendar year, except that the base period for purposes of Section 415(d)(1)(A) of the Code shall be the calendar quarter beginning October 1, 1993, over (ii) the Maximum Compensation Limitation in effect for the Plan Year beginning in the calendar year.

Prior to Plan Years beginning on January 1, 1997, in determining a Participant’s compensation for purposes of the Maximum Compensation Limitation, if any individual is a member of the family of a 5-percent owner or of a Highly Compensated Employee who is in the group consisting of the 10 individuals paid the greatest compensation during the year, then (i) such individual shall not be considered as a separate employee and (ii) any compensation paid to such individual (and any applicable benefit on behalf of such individual) shall be treated as if it were paid to (or on behalf of) the 5-percent owner or Highly Compensated Employee; provided, however, that for purposes of this Section 1.34, the term “family” shall include only the

Participant’s Spouse and any lineal descendants of the Participant who have not attained age 19 before the close of the year. If, as a result of the application of the foregoing family aggregation rules, the Maximum Compensation Limitation is exceeded, then the limit shall be prorated among the affected individuals in proportion to each such individual’s compensation as determined prior to the application of the Maximum Compensation Limitation. After December 31, 1996, the family aggregation rules are repealed.

1.35 “Normal Retirement Age” means the date the Participant attains age 65.

1.36 “Normal Retirement Date” means the first day of the calendar month on or immediately after an Employee’s Normal Retirement Age.

1.37 “Parental Leave” means a period in which the Employee is absent from work immediately following his or her active employment due to (a) the Employee’s pregnancy, (b) the birth of the Employee’s child, (c) the placement of a child with the Employee in connection with the adoption of that child by the Employee, or (d) the Employee’s caring for that child for a period beginning immediately following the birth or placement of such child. Such a leave shall be subject to verification by the Administrative Committee.

1.38 “Participant” means any person included for participation in the Plan as provided in Article 2 and who continues to be entitled to benefits under the Plan.

1.39 “Participant Contributions” means the mandatory contributions paid by Participants pursuant to Section 3.01.

1.40 “Pension” means a Participant’s benefit under the Plan, generally payable in the form of an annuity.

1.41 “Plan” means the Farmer Bros. Co. Retirement Plan as set forth in this document, or as amended from time to time.

1.42 “Plan Year” means the 12-month period beginning on any January 1.

1.43 “Postponed Retirement Date” means the first day of the calendar month on or immediately after the date that a Participant terminates his employment with the Employer or an Affiliated Employer after his Normal Retirement Date.

1.44 “Qualified Domestic Relations Order” means a judgment, decree, or order issued by a court of competent jurisdiction which:

- (a) Creates for, or assigns to, a Spouse, former Spouse, child or other dependent of a Participant the right to receive all or a portion of the Participant’s benefits under the Plan for the purpose of providing child support, alimony payments or marital property rights to that Spouse, former Spouse, child or dependent;
 - (b) Is made pursuant to a State domestic relations law;
 - (c) Does not require the Plan to provide any type of benefit, or any option, not otherwise provided under the Plan; and
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- (d) Otherwise meets the requirements of Section 206(d) of ERISA as determined by the Administrative Committee.

1.45 “Qualified Joint and Survivor Annuity” means an annuity described in Section 7.02(a).

1.46 “Residual Accrued Pension Derived from Participant Contributions” is equal to the excess, if any, of the Participant’s Accrued Pension Derived from Participant Contributions over the Participant’s Alternate Accrued Pension Derived from Participant Contributions.

1.47 “Retirement Date” means a Participant’s Early, Normal or Postponed Retirement Date, whichever is applicable.

1.48 “Section 203(a)(3)(B) Service” means the employment of an Employee by the Employer or an Affiliated Employer during a calendar month, subsequent to the time the payment of the Participant’s Pension commenced or would have commenced if the Employee had not remained in or returned to employment during such month, if the Employee is credited with at least 40 Hours of Service during such calendar month.

1.49 “Section 417 Interest Rate” means the interest rate or rates that would be used by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution upon termination of an insufficient trustee single-employer plan as of the first day of the Plan Year in which the determination is made.

1.50 “Severance from Service Date” means the earlier of:

- (a) The date an Employee quits, retires, is discharged or dies, or
- (b) The first anniversary of the date on which an Employee is first absent from service from the Employer or an Affiliated Employer, with or without pay, for any reason (other than resignation, retirement, discharge or death), such as vacation, sickness, Disability, layoff or Leave of Absence.

1.51 “Spousal Consent” means written consent given by a Participant’s Spouse to an election made by the Participant of a specified form of benefit or a designation by the Participant of a specified Beneficiary other than the Spouse. That consent shall be duly witnessed by a Plan representative or notary public and shall acknowledge the effect on the Spouse of the Participant’s election. The requirement for spousal consent may be waived by the Administrative Committee if it is established to its satisfaction that there is no spouse, or that the Spouse cannot be located, or because of such other circumstances as may be established by applicable law. Spousal Consent shall be applicable only to the particular Spouse who provides such consent.

1.52 “Spouse” means the person legally married to the Participant.

1.53 “Stability Period” means the calendar year in which the Annuity Starting Date occurs for the distribution.

1.54 “Trust” means the fund established by the Company to hold and invest the assets of the Plan.

1.55 “Trustee” means the bank, trust company or individuals selected by the Company to take custody of the assets of the Plan.

1.56 “Year of Eligibility Service” means, with respect to an Employee, the 12-month period beginning on the first date as of which the Employee is credited with an Hour of Service, or any Plan Year beginning after that date, in which the Employee first completes at least 1,000 Hours of Service.

1.57 “Year of Vesting Service” means, with respect to an Employee, any Plan Year in which the Employee completes at least 1,000 Hours of Service. If the Employee incurs a Break in Service, and he is subsequently rehired, the Employee’s Years of Vesting Service accrued after reemployment shall be aggregated with his Years of Vesting Service accrued prior to the Break in Service only if (i) the Employee was vested in his Accrued Pension Derived from Employer Contributions, or (ii) (A) the Employee’s consecutive one-year Breaks in Service do not equal or exceed the greater of five years or his Years of Vesting Service before the Break in Service, and (B) the Employee is credited with at least one Year of Vesting Service after his Break in Service. If the Employee’s Break in Service ended prior to January 1, 1985, or if he had a Break in Service on December 31, 1984, and the number of his consecutive one-year Breaks in Service as of that date exceeded his Years of Vesting Service under the Plan provisions then in effect, then his previously accrued Years of Vesting Service shall be excluded.

If an Employee returns to employment after a period of service in the uniformed services of the United States within the time stipulated under Section 414(u) of the Code, he/she shall be credited for Years of Vesting Service during such period.

1.58 ‘Union Employee’ means an Employee who is not eligible to participate in the Plan solely because he is a member of a unit of employees covered by a collective bargaining agreement between employee representatives and the Employer or Affiliated Employer and there is evidence that retirement benefits were the subject of good faith bargaining and the agreement does not provide for such Employee’s participation in the Plan.

Article 2. Eligibility and Participation

2.01 Eligibility

(a) Each Employee who is a Participant in the Plan on December 31, 1988, shall continue to be a Participant in the Plan as of January 1, 1989. Former Employees who retired, died or terminated prior to January 1, 1989, shall continue to receive or be entitled to receive such benefits as they may have accrued pursuant to the terms of the Plan in effect on December 31, 1988.

(b) Each other Employee shall be eligible to become a Participant in

the Plan provided that he is an Eligible Employee and:

- (i) The Employee has completed one Year of Eligibility Service; or
- (ii) The Employee was a participant under, and transferred from, another plan maintained by the Employer.

2.02 Participation

An Employee who is eligible to become a Plan Participant in accordance with Section 2.01 shall become a Participant as of the first Enrollment Date after the date he files with the Employer, within the time period established by the Administrative Committee, an enrollment form as prescribed by the Administrative Committee which shall authorize the Employer to deduct from his Compensation the Participant Contributions required under Section 3.01.

2.03 Reemployment of Former Employees and Former Participants

(a) Any person reemployed by the Employer as an Eligible Employee who was previously a Participant or who was previously eligible to become a Participant, shall be immediately eligible to become a Participant in the Plan upon the filing of an enrollment form in accordance with Section 2.02.

(b) Each other person reemployed by the Employer as an Eligible Employee shall be eligible to become a Participant in the Plan upon satisfying the requirements of Section 2.01(b) and the filing of an enrollment form in accordance with Section 2.02.

2.04 Transferred Participants

A Participant who remains in the employ of the Employer or an Affiliated Employer, but ceases to be an Eligible Employee, shall continue to be a Participant in the Plan, but shall not be eligible to make Participant Contributions or otherwise accrue benefits under the Plan while his employment status is other than as an Eligible Employee.

2.05 Termination of Participation

An Eligible Employee's participation in the Plan shall terminate on the date he terminates employment with the Employer and all Affiliated Employers unless the Participant is entitled to benefits under the Plan, in which event his participation shall terminate when those benefits are distributed to him.

Article 3. Contributions

3.01 Participant Contributions

Each Employee who meets the eligibility requirements for Plan participation described in Article 2, and who completes an enrollment form as described in Section 2.02, shall:

(a) Prior to April 1, 1995, contribute to the Plan, by payroll deduction, 2% of his Compensation for all periods that he is an active Plan Participant inclusive of a period of active Plan participation after he has reached Normal Retirement Age; and

(b) On and after April 1, 1995, contribute to the Plan, by payroll deduction, 2% of his Compensation for all periods that he is an active Plan Participant inclusive of a period of active Plan participation after he has reached Normal Retirement Age; provided, however, that such Participant Contributions shall not be required (or permitted):

(i) With respect to a Participant who is an Employee as of January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, after the Participant has been credited with 60 months of Benefit Service (before Section 1.11(g) is applied); and

(ii) With respect to a Participant who is not an Employee as of January 1, 1995, and who is not on an approved Leave of Absence as of January 1, 1995, after the Participant has been credited with 60 months of Benefit Service after January 1, 1995 (before Section 1.11(g) is applied).

3.02 Suspension of Participation

(a) Participation in the Plan by each Eligible Employee is voluntary. A Participant may suspend his participation as of the end of any pay period. To suspend participation the Participant must file a written notice with the Administrative Committee within the time period established by the Administrative Committee. A Participant who has suspended participation may resume participation on the first day of any pay period which is at least twelve calendar months after the effective date of his last suspension of participation.

(b) In no event shall a Participant be permitted to make up contributions he could have made during a period of suspension.

3.03 In-Service Withdrawal of Accumulated Contributions

On and after January 1, 1985, a Participant shall not be permitted to withdraw his Participant Contributions while he is employed by the Employer.

3.04 Employer Contributions

The Employer shall make the contributions that, in addition to the contributions made by Participants employed by the Employer, are necessary to maintain the Plan on a sound actuarial basis and to meet the minimum funding standards prescribed by law. Any forfeitures shall be used to reduce the contributions otherwise payable by the Employer.

3.05 Plan-to-Plan Transfers / Rollover Contributions

A Participant shall not be permitted to transfer to the Trust any

portion of his distribution from any other qualified plan, nonqualified plan, or individual retirement annuity or account.

3.06 Return of Contributions

Except as provided below, at no time shall any contributions (or portions thereof) revert to the Employer prior to discharge of all liabilities under the Plan -

(a) The Employer's contributions to the Plan are conditioned upon Section 404 of the Code. If all or part of the Employer's deductions under Section 404 of the Code for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Employer without interest but reduced by any investment loss attributable to those contributions. The return shall be made within one year after the disallowance of the deduction.

(b) The Employer may recover, without interest, the amount of its contributions to the Plan made on account of a mistake of fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.

3.07 Contributions during Period of Service in the Uniformed Services of the United States

(a) Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified service in the uniformed services of the United States will be provided in accordance with Section 414(u) of the Code. Without regard to any limitations on contributions set forth in this Article 3, a Participant who is reemployed on or after August 1, 1990 and is credited with benefit service under the provisions of Section 1.11 because of a period of service in the uniformed services of the United States, may elect to contribute to the Plan the Participant Contributions that could have been contributed to the Plan in accordance with the provisions of the Plan had he or she remained continuously employed by the Employer throughout such period of absence ("make-up contributions"). The amount of make-up contributions shall be determined on the basis of the Participant's Compensation in effect immediately prior to the period of absence, and the terms of the Plan at such time. Any contribution to the Plan described in this paragraph shall be made during the applicable repayment period. The repayment period shall equal three (3) times the period of absence, but not longer than five (5) years and shall begin on the latest of: (i) the Participant's date of reemployment, (ii) October 13, 1996, or (iii) the date the Employer notifies the Employee of his or her rights under this Section. Credited interest on make-up contributions is made in accordance with Section 1.04.

(b) Participant Contributions under this Section 3.07 are considered "Annual Additions," as defined in Section 415(c)(2) of the Code, and shall be limited in accordance with the provisions of Section 6.01 and Appendix A with respect to the Plan Year or Plan Years

to which such contributions relate rather than the Plan Year in which payment is made.

Article 4. Termination of Employment Prior to Retirement

4.01 Amount of Vested Interest

(a) A Participant shall at all times be fully vested in his Accrued Pension Derived from Participant Contributions and Residual Accrued Pension Derived from Participant Contributions, whichever is applicable.

(b) A Participant shall become fully vested in his Accrued Pension Derived from Employer Contributions on the date he (i) attains his Normal Retirement Age provided that the Participant is employed by an Employer or Affiliated Employer on that date, or (ii) completes 5 years of Vesting Service.

4.02 Distribution of Vested Interest

(a) If, on his Severance from Service Date, the Participant has no vested interest in his Accrued Pension, the Participant shall be deemed to have received a cash lump sum of \$0 (equal to the present value of his vested Accrued Pension as of such termination date) and such Accrued Pension shall be forfeited as of his Severance from Service Date.

(b) If, on his Severance from Service Date, the Participant has a vested interest only in his Accrued Pension Derived from Participant Contributions (i.e., he has no vested interest in his Accrued Pension Derived from Employer Contributions), the Participant may elect:

(i) To receive a lump sum distribution of his Accumulated Contributions, with Spousal Consent if the present value of his vested Accrued Pension exceeds \$5,000 (prior to August 5, 1997 this amount was \$3,500), in which event he will forfeit his Accrued Pension Derived from

Employer Contributions; however, if he later again becomes a Participant, he may repay such Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension;

(ii) To receive his Accrued Pension Derived from Participant Contributions in the form of an immediate annuity, commencing as of the first day of the month immediately following the Participant's Severance from Service Date; the annuity shall be the Actuarial Equivalent (determined without regard to the early retirement factors described in Section 5.03(b)) of the Participant's Accrued Pension Derived from Participant Contributions and shall be payable only as a Qualified Joint and Survivor Annuity; or

(iii) To receive his Accrued Pension Derived from Participant

Contributions commencing as of his Retirement Date.

(c) If, on his Severance from Service Date, the Participant has a vested interest only in his Accrued Pension Derived from Employer Contributions (i.e., he has no Accumulated Contributions), he will receive a deferred Pension based on such interest commencing as of his Retirement Date.

(d) If, on his Severance from Service Date, the Participant has a vested interest in his Accrued Pension Derived from Participant Contributions and his Accrued Pension Derived from Employer Contributions, he may elect:

(i) To receive his entire Accrued Pension commencing as of his Retirement Date;

(ii) Prior to the date that he commences to receive the Pension described in Section 4.02(d)(i), to receive a lump sum distribution of his Accumulated Contributions, with Spousal Consent if the present value of his Accrued Pension exceeds \$5,000 (prior to August 5, 1997 this amount was \$3,500); if he later again becomes a Participant, he may repay such Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension; in the event the Participant does not repay his Accumulated Contributions, the Pension payable to the Participant as of his Retirement Date shall be the sum of his (A) Accrued Pension Derived from Employer Contributions and (B) Residual Accrued Pension Derived from Participant Contributions; or

(iii) Prior to the date that he commences to receive the Pension described in Section 4.02(d)(i), to receive his Accrued Pension Derived from Participant Contributions in the form of an immediate annuity; the annuity shall be the Actuarial Equivalent (determined without regard to the early retirement factors described in Section 5.03(b) unless the Participant has attained age 55) of the Participant's Accrued Pension Derived from Participant Contributions and shall be payable only as a Qualified Joint and Survivor Annuity; in the event the Participant elects to receive his Accrued Pension Derived from Participant Contributions as an immediate annuity, the additional Pension payable to the Participant as of his Retirement Date shall be the sum of his (A) Accrued Pension Derived from Employer Contributions and (B) Residual Accrued Pension Derived from Participant Contributions.

(e) In any case, an immediate lump sum payment, which is the Actuarial Equivalent of the Participant's vested Accrued Pension, shall be made in lieu of all benefits if the value of the lump sum payment is \$5,000 (prior to August 5, 1997 this amount was \$3,500) or less. The lump sum payment may be made at any time on or after the date the Participant terminates employment. However, if a lump sum payment is to be made after a Participant's Annuity Starting Date, the Participant must consent in writing to such form of distribution and, if he is married,

Spousal Consent must also be obtained. If a Participant, who has a vested interest only in his Accrued Pension Derived from Participant Contributions (i.e., he has no vested interest in his Accrued Pension Derived from Employer Contributions), receives a lump sum distribution in accordance with this subparagraph (e) and later again becomes a participant, he may repay his Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension.

4.03 Repayment of Participant Contributions

A Participant who has received a prior distribution of his Accumulated Contributions shall have forfeited his Accrued Pension Derived from Participant Contributions to the extent of such distribution, and may have forfeited the related Accrued Pension Derived from Employer Contributions. A Participant may restore such benefits by repaying the amount of the prior distribution of Accumulated Contributions, plus interest at the rates described in Section 1.04 from the date of the prior distribution to the date of repayment. Such repayment must be made:

(a) In the case of an in-service withdrawal as described in Section 3.03, within 5 years of the date of withdrawal, or

(b) In the case of a withdrawal after a Severance from Service Date as described in Section 4.02, before the earlier of (i) 5 years after the Participant is reemployed by the Employer or an Affiliated Employer following the withdrawal, or (ii) the date the Participant incurs 5 consecutive one-year Breaks in Service after the withdrawal.

Article 5. Eligibility for and Amount of Pension Benefits

5.01 Normal Retirement

(a) The right of a Participant to his normal retirement Pension shall be nonforfeitable as of the date he attains his Normal Retirement Age provided that the Participant is employed by an Employer or Affiliated Employer on that date. A Participant who has attained Normal Retirement Age may retire and commence to receive a normal retirement Pension, upon providing written notification to the Administrative Committee, beginning as of his Normal Retirement Date, or he may postpone his retirement Pension in which event the provisions of Section 5.02 shall be applicable.

(b) Subject to Section 5.01(g), the normal retirement Pension payable upon retirement on a Participant's Normal Retirement Date shall be a monthly benefit payable for life, equal to (i) plus, where applicable (ii), as follows:

(i) One and one-half percent (1.5%) of the Participant's Final Average Compensation multiplied by his Benefit Service accrued after December 31, 1978.

(ii) For a Participant who participated in the Plan prior to January 1, 1979, the greater of:

(A) The Participant's accrued monthly benefit as of December 31, 1978, determined in accordance with the terms of the Plan in effect on that date; or

(B) One and one-half percent (1.5%) of the Participant's Final Average Compensation multiplied by his Benefit Service accrued prior to January 1, 1979.

(c) Notwithstanding Section 5.01(b), with respect to a Participant who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, the Participant's monthly normal retirement Pension shall not be less than the sum of:

(i) \$60.00 multiplied by the Participant's Benefit Service not in excess of 20 years; and

(ii) \$80.00 multiplied by the Participant's Benefit Service in excess of 20 years.

(d) Notwithstanding Section 5.01(b), a Participant's normal retirement Pension shall never be less than his Accrued Pension Derived from Participant Contributions calculated as of his Normal Retirement Age.

(e) Notwithstanding Section 5.01(b), a Participant's normal retirement Pension shall not be less than the sum of:

(i) His OBRA 1993 Accrued Pension; and

(ii) His Accrued Pension determined as of his Normal Retirement Date using Benefit Service and Compensation earned on and after January 1, 1994. For purposes of this subparagraph (ii), the Participant's Compensation in each of the relevant years shall not exceed the Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect for each of the relevant years on and after January 1, 1994.

(f) The following definitions apply to the terms used in this Section 5.01:

(i) "OBRA 1988 Accrued Pension" means the Participant's Accrued Pension determined as if the Participant terminated employment on December 31, 1988 (or date of termination, if earlier).

(ii) "OBRA 1993 Accrued Pension" means the greater of:

(A) The Participant's Accrued Pension, determined using all Benefit Service and Compensation earned prior to

January 1, 1994. For purposes of this subparagraph (A), the Participant's Compensation in each of the relevant years shall not exceed the \$200,000 Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect prior to January 1, 1994; or

(B) The sum of (i) the Participant's OBRA 1988 Accrued Pension, and (ii) the Participant's Accrued Pension, determined using Years of Service and Compensation earned after December 31, 1988, and prior to January 1, 1994. For purposes of this subparagraph (B)(ii), the Participant's Compensation in each of the relevant years shall not exceed the \$200,000 Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect prior to January 1, 1994.

(g) Upon a Retirement Date, a Participant may elect to receive an immediate lump sum distribution of his Accumulated Contributions. In such event, the benefits payable to the Participant pursuant to this Section 5.01 shall be the sum of his (i) Accrued Pension Derived from Employer Contributions and (ii) Residual Accrued Pension Derived from Participant Contributions.

5.02 Postponed Retirement

(a) If a Participant retires on a Postponed Retirement Date or otherwise postpones his retirement Pension, he shall commence to receive a late retirement Pension as of the earlier of (i) the first day of the calendar month after his actual Retirement Date; (ii) the date that he is required to commence receiving payment of his benefit in accordance with Section 7.06(b); or (iii) the first day of the calendar month after the calendar month in which the Participant is no longer employed in Section 203(a)(3)(B) Service.

(b) A late retirement Pension that commences after the Participant elects a Postponed Retirement Date shall, subject to the provisions of Section 7.02, be equal to:

(i) With respect to any Participant who during any month after his Normal Retirement Date is not employed in Section 203(a)(3)(B) Service, the Accrued Pension accrued by the Participant as of his Normal Retirement Date determined in accordance with Section 5.01(b) above, plus, for each Plan Year ending after the Participant's Normal Retirement Date through the Participant's Postponed Retirement Date, the greater of:

(A) The additional Accrued Pension accrued by the Participant for each such Plan Year determined in accordance with Section 5.01(b) based on the Participant's Compensation and Benefit Service earned in such Plan Year, or

(B) The actuarial increase in the Accrued Pension accrued

by the Participant as of the end of the Plan Year preceding the Plan Year in question to take into account the nonpayment of such benefits.

(ii) With respect to all other Participants, the greater of:

(A) The Accrued Pension accrued by the Participant determined in accordance with Section 5.01(b) based on the Participant's Final Average Compensation and Benefit Service as of his Postponed Retirement Date, or

(B) The Participant's Accrued Pension as of his Normal Retirement Date determined in accordance with Section 5.01(b), actuarially increased to take into account the nonpayment of such benefits.

(c) If a Participant's Pension commences in accordance with the requirements of Section 7.06(b), but before the Participant elects a Postponed Retirement Date, the following provisions shall apply:

(i) The Pension payable to the Participant as of the date required by Section 7.06(b) shall be calculated in accordance with Section 5.02(b) above through the date the Pension will commence in accordance with Section 7.06(b), rather than through the Participant's Postponed Retirement Date; and

(ii) The amount of Pension to which a Participant is entitled under the Plan shall be recalculated annually in accordance with Section 5.02(b) above, during the period that the Participant is still employed by the Employer or an Affiliated Employer, as of the end of each Plan Year with the amount of the Pension being paid adjusted as of the first day of the following Plan Year. Any additional accrual during a Plan Year shall be reduced, however, by the Actuarial Equivalent of the employer-derived portion of any payments during the Plan Year to the Participant during any month in which the Participant is employed in Section 203(a)(3)(B) Service; provided, however, that such reduction shall not exceed 25% of the amount of the Pension due the Participant before application of the reduction provided for in this sentence.

(d) A Participant who continues employment past his Normal Retirement Date shall be given such notice with respect to the suspension of his retirement benefit payments as is required by applicable Department of Labor Regulations.

5.03 Early Retirement

(a) A Participant who has not reached his Normal Retirement Date but who, prior to his termination of employment with the Employer and all Affiliated Employers, has reached an Early Retirement Date may

elect to retire on an Early Retirement Date and commence to receive an early retirement Pension as of the first day of the calendar month after he submits to the Administrative Committee a written application for retirement benefits.

(b) Unless the Participant otherwise elects, the early retirement Pension shall be a deferred Pension beginning on the Participant's Normal Retirement Date and, subject to the provisions of Section 7.02, shall be equal to his Accrued Pension. However, the Participant may elect to receive an early retirement Pension beginning on the first day of any calendar month on or after his Early Retirement Date but before his Normal Retirement Date. The Participant's early retirement Pension shall be equal to the Participant's Accrued Pension reduced by one-third of one percent for each full calendar month by which the date the Participant's actual Early Retirement Date precedes the Participant's Normal Retirement Date; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, and the sum of Participant's age and Benefit Service as of his actual Early Retirement Date equals at least 82, the Participant's early retirement Pension shall be equal to the Participant's Accrued Pension reduced by one-third of one percent for each full calendar month, if any, by which the date the Participant's actual Early Retirement Date precedes the date that the Participant will attain age 62.

5.04 Disability Retirement

(a) If a Participant ceases to be employed by the Employer while an Employee on account of Disability, and he has not reached his Normal Retirement Date, but (i) has attained age 45, (ii) has completed 10 years of Benefit Service, and (iii) is eligible for and continuously receiving disability insurance benefits under the Social Security Act, the Participant shall upon such termination of employment be eligible to receive a disability retirement Pension beginning on the first day of the calendar month immediately after the Administrative Committee receives written application for the disability retirement Pension made by or for the Participant.

(b) Subject to the provisions of Section 7.02, the disability retirement Pension shall be equal to the Participant's Accrued Pension determined in accordance with Section 5.03(b) as if the Participant had elected to retire as of the date disability benefits commence, but it shall only be payable subject to continuance of his Disability as provided in Section 5.04(c).

(c) As a condition of his continuing to receive a disability retirement Pension, a Participant who has not reached his Normal Retirement Date may be required by the Administrative Committee to provide satisfactory proof of his continued receipt of disability insurance benefits under the Social Security Act. If the Participant refuses to provide that proof, his disability retirement Pension shall cease until he no longer refuses to provide that proof. If his refusal continues for a year, all rights to the disability retirement Pension shall cease and the

election of an optional benefit if one has been elected shall no longer be effective. If the Administrative Committee finds that the Participant has stopped receiving those disability insurance benefits, his disability retirement Pension shall cease. In that case, if the Participant is not restored to service with the Employer or an Affiliated Employer, he shall be entitled to (1) retire on an early retirement Pension as of the first day of the calendar month immediately after his disability retirement Pension ceases, if as of the date his disability retirement Pension ceases, he has attained the required age for early retirement, or (b) to

receive a vested Pension payable in accordance with Section 5.05. In either case, the Pension shall be equal to the Participant's Accrued Pension determined in accordance with Section 5.03(b) as if the Participant had elected to retire as of the date disability benefits commenced.

5.05 Termination With Vesting

(a) In accordance with Section 4.01, a Participant shall be 100 percent vested in, and have a nonforfeitable right to, his Accrued Pension on the date he (i) attains his Normal Retirement Age provided that the Participant is employed by an Employer or Affiliated Employer on that date, or (ii) completes 5 years of Vesting Service. If the Participant's employment with the Employer is subsequently terminated for reasons other than retirement or death, he shall be eligible for a deferred vested Pension to commence, as of a date described in Section 5.05(b) below, after the Participant has provided written notification to the Administrative Committee of his intention to commence receiving his Pension benefits.

(b) The deferred vested Pension shall generally commence to be paid as of the Participant's Normal Retirement Date and, subject to the provisions of Section 7.02, shall be equal to his Accrued Pension. However, if the Participant has completed five Years of Vesting Service on the date of his termination, the Participant may elect to have his vested Pension commence as of the first day of any calendar month after he attains age 55 and before his Normal Retirement Date. In that case, the Participant's Pension shall be equal to the Participant's vested Pension otherwise payable at his Normal Retirement Date reduced by one-third of one percent for each full calendar month by which the date the Participant's actual Retirement Date precedes the Participant's Normal Retirement Date..

5.06 Adjustments to Pensions in Pay Status

(a) Effective September 1, 1980, the Pension payable to a Participant who is receiving a monthly annuity on that date shall be increased by 3% for each complete year of retirement, measured from the date benefits became payable and ending on September 1, 1980.

(b) Effective January 1, 1986, the Pension payable to a Participant who is receiving a monthly annuity on that date shall be increased by the lesser of:

(i) 10%; or

(ii) 2% multiplied by the excess, if any, of 1986 over the year benefits first became payable.

(c) Effective January 1, 1990, the Pension payable to a Participant who is receiving a monthly annuity on that date shall be increased 10%.

5.07 Suspension of Benefits

(a) During any month in which a Participant who is receiving a Pension is employed in Section 203(a)(3)(B) Service as an Eligible Employee, the following provisions shall apply provided that the Participant is delivered a notice that complies with Department of Labor Regulations Section 2530.203-3:

(i) The Participant's Pension shall cease and any election of an optional benefit in effect shall be void.

(ii) Any Years of Vesting Service and Benefit Service to which the Participant was entitled when he retired or terminated service shall be restored to him.

(iii) Upon later retirement, termination, or failure to be employed in Section 203(a)(3)(B) Service, the Participant's Pension shall be calculated in accordance with the following:

(A) If his reemployment occurred prior to his Normal Retirement Date, his Pension shall be calculated under the benefit formula in effect upon his latest Retirement Date, based on his Compensation and Benefit Service before and after the period when he was not in the service of the Employer, reduced by the Actuarial Equivalent of the benefits, if any, he received before his return to service with the Employer; or

(B) If his reemployment occurred on or after his Normal Retirement Date, his Pension shall be equal to the benefit he was receiving as of his rehire date plus any additional benefits he accrued on account of his Compensation and Benefit Service after such rehire date. Any additional accrual during a Plan Year shall be reduced, however, by the Actuarial Equivalent of the employer-derived portion of any payments during the Plan Year to the Participant during any month in which the Participant is employed in Section 203(a)(3)(B) Service; provided, however, that such reduction shall not exceed 25% of the amount of the Pension due the Participant before application of the reduction provided for in this sentence.

(iv) The portion of the Participant's Pension upon later

retirement payable with respect to Benefit Service rendered before his previous retirement or termination of service shall never be less than the amount of his previous Pension modified to reflect any option in effect on his later retirement.

(b) The Administrative Committee shall establish procedures consistent with Department of Labor Regulations Section 2530.203-3 regarding the suspension of benefits under this Section 5.07 including but not limited to procedures for resumption of benefits, offsetting benefit payments and notice regarding suspension of benefits.

5.08 Nonduplication of Benefits

Any Pension payable under the Plan shall be reduced by any pension paid to a Participant under the terms of any other defined benefit pension plan to which the Employer contributes, directly or indirectly, other than by payment of taxes, to the extent that such pension is based on a period of employment with the

Employer for which a Participant receives credit for Pension benefits under this Plan.

Article 6. Restrictions on Benefits and Payments

6.01 Maximum Annual Benefit Limitation and Maximum Annual Additions Limitation

(a) Subject to the adjustments described in Appendix A, the annual Accrued Pension Derived from Employer Contributions payable to a Participant under the Plan, when added to any pension attributable to contributions of the Employer or an Affiliated Employer provided to the Participant under any other qualified defined benefit plan, shall not exceed the lesser of:

(i) \$90,000 (adjusted in accordance with Appendix A); or

(ii) The Participant's average annual "Section 415 Compensation" (as defined in Appendix A) during three consecutive calendar years of his participation in the Plan affording the highest such average, or during all of the years in which he was a Participant in the Plan if less than three years.

(b) In accordance with the provisions of Appendix A attached hereto, a Participant's Participant Contributions for any Plan Year, when added to the Participant's "Annual Additions" (as defined in Appendix A) for that Plan Year under any other qualified plan of the Employer or an Affiliated Employer, shall not exceed an amount which is equal to the lesser of (i) 25% of his "Section 415 Compensation" (as defined in Appendix A) for that Plan Year or (ii) the greater of \$30,000 or one-quarter of the

dollar limitation in effect under Section 415(b)(1)(A) of the Code.

6.02 Top-Heavy Provisions

Notwithstanding anything else contained herein, for any Plan Year for which this Plan is "top-heavy", as defined in Section B.02 of Appendix B attached hereto, this Plan will be subject to the provisions of Appendix B.

6.03 Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees

(a) Beginning January 1, 1994, the provisions of Appendix C shall apply (i) in the event the Plan is terminated, to any Participant who is a Highly Compensated Employee or former Highly Compensated Employee of the Employer or an Affiliated Employer, and (ii) in any other event, to any Participant who is one of the 25 highest compensated employees or former highest compensated employees of the Employer or Affiliated Employer with the greatest compensation in any Plan Year.

(b) For the period beginning January 1, 1989, and ending December 31, 1993, the provisions of Appendix D shall apply to any Participant who is one of the 25 highest paid Employees of the Employer on any "Commencement Date" and whose anticipated annual Pension provided under the Plan at Normal Retirement Date exceeds \$1,500. "Commencement Date", for purposes of this Section 6.03(b), shall mean the Effective Date of the Plan or the effective date of any amendment to the Plan which increases the benefits.

Article 7. Form of Payment of Pension Benefits

7.01 Normal Form of Payment

The normal form of payment payable under the Plan shall be a monthly benefit payable for the life of the Participant.

7.02 Automatic Form of Payment

(a) Except as provided in Section 7.02(b), the automatic form of payment payable under the Plan shall be a Qualified Joint and Survivor Annuity, which is described in (i) and (ii) below:

(i) If the Participant is not married on his Annuity Starting Date, the Qualified Joint and Survivor Annuity shall be equal to the normal form of payment described in Section 7.01; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, the Qualified Joint and Survivor Annuity shall be

equal to the Five Year Certain and Life Annuity described in Section 7.03(a)(ii), but no actuarial adjustment shall be made to account for the five year certain period.

(ii) If the Participant is married on his Annuity Starting Date, the Qualified Joint and Survivor Annuity shall be equal to the Actuarial Equivalent of the normal form of payment, which provides (A) for a reduced benefit payable to the Participant during his life, and (B) after the Participant's death, a benefit at the rate of 75% of the benefit paid to the Participant, payable during the life of and to the Participant's Spouse; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, the Qualified Joint and Survivor Annuity shall be equal to the 75% Joint and Survivor Annuity described in Section 7.03(a)(i), but no actuarial adjustment shall be made to account for the five year certain period.

(b) In any case, an immediate lump sum payment, which is the Actuarial Equivalent of the Participant's vested Accrued Pension, shall be made in lieu of all benefits if the value of the lump sum payment does not exceed \$5,000 (\$3,500 prior to August 5, 1997). The lump sum payment may be made at any time on or after the date the Participant terminates employment. However, if a lump sum payment is to be made after a Participant's Annuity Starting Date, the Participant must consent in writing to such form of distribution and, if he is married, Spousal Consent must also be obtained. If a Participant, who

has a vested interest only in his Accrued Pension Derived from Participant Contributions (i.e., he has no vested interest in his Accrued Pension Derived from Employer Contributions), receives a lump sum distribution in accordance with this subparagraph (b) and later again becomes a participant, he may repay his Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension.

7.03 Optional Forms of Payment

(a) A Participant who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, may, subject to the provisions of Section 7.04, elect to convert the automatic form of the Pension otherwise payable to him (other than a disability retirement Pension) into one of the following optional forms of benefit:

(i) Joint and Survivor Option — a reduced Pension payable to the Participant during his life and, after his death, payable to his designated Beneficiary for the remainder of her life, in an amount equal to 50%, 75% or 100% (according to the election of the Participant) of the Pension the Participant was receiving; provided, however, that if the Participant's Beneficiary dies before the Participant, the Participant shall receive, commencing on the first day of the month after the Beneficiary dies, the benefit he would have received as

of his Annuity Starting Date if he had elected the normal form of benefit described in Section 7.01(a) (referred to as the "Pop-Up Feature"); provided further that such Joint and Survivor Annuity shall be payable for a minimum of 60 months. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate. This Option shall not be available to a Participant whose Beneficiary is more than 30 years younger than the Participant, unless the Beneficiary is the Participant's Spouse.

(ii) Five Year Certain and Life Option — a Pension payable to the Participant during his life; provided, however, that such annuity shall be payable for a minimum of 60 months. If the Participant dies during the first 60 months of payment, the Pension shall be payable for the balance of the 60 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate.

(iii) Ten Year Certain and Life Option — a Pension payable to the Participant during his life; provided, however, that such annuity shall be payable for a minimum of 120 months. If the Participant dies during the first 120 months of payment, the Pension shall be payable for the balance of the 120 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 120 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate.

(iv) Level Income Option — an increased Pension payable to the Participant before commencement of Social Security benefits and a correspondingly reduced Pension after commencement of Social Security benefits such that the total income (from the adjusted Pension payable pursuant to the Plan and the Social Security benefit to which the Participant is entitled) shall be as level as practicable both before and after commencement of Social Security benefits. Such Level Income Annuity shall be payable for a minimum of 60 months. If the Participant dies during the first 60 months of payment, the Pension (the

amount of which is determined as if the Participant had lived for the 60 months) shall be payable for the balance of the 60 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate. Effective January 1, 1995, this Option shall not be available to a Participant who retires on or after the date that the Participant attains age 62.

(b) Except as otherwise provided in this Section 7.03(b), the benefit payable under options (i) through (iv) above shall be the Actuarial Equivalent of the normal form of payment described in Section 7.01. With respect to the Joint and Survivor Option, the Actuarial Equivalent shall be based on the percentage of the benefit to be continued to the surviving Beneficiary and the ages of both the Participant and his designated Beneficiary, but no actuarial adjustment shall be made to account for the Pop-Up Feature and the five year certain period. With respect to the Five Year Certain and Life Option, the Actuarial Equivalent shall be based on the age of the Participant, but no actuarial adjustment shall be made to account for the five year certain period. With respect to the Ten Year Certain and Life Option, the Actuarial Equivalent shall be based on the age of the Participant and an actuarial adjustment shall be made to account for the ten year certain period. With respect to the Level Income Option, the Actuarial Equivalent shall be based on the age of the Participant and an estimate of the Social Security benefit that will be payable to the Participant assuming that the Participant will commence receiving Social Security Benefits on the date the Participant attains age 65, but no actuarial adjustment shall be made to account for the five year certain period.

(c) A Participant who is not credited with an Hour of Service on or after January 1, 1995, and who is not on an approved Leave of Absence as of January 1, 1995, may, subject to the provisions of Section 7.04, elect to convert the automatic form of the Pension otherwise payable to him (other than a disability retirement Pension) into one of the optional forms of benefit available in accordance with the terms of the Plan in effect on December 31, 1994.

7.04 Election of Options

(a) A married Participant's election of any option shall be effective only if the Administrative Committee receives Spousal Consent to the election unless:

(i) The option is the Actuarial Equivalent of the Qualified Joint and Survivor Annuity; and

(ii) The option provides for monthly payments to the Participant's Spouse for life after the Participant's death in an amount equal to at least 50% but not more than 100% of the monthly amount payable to the Participant under the option.

(b) The Administrative Committee shall furnish to each Participant, no less than 30 days and no more than 90 days before his Annuity Starting Date, a written explanation in nontechnical language of the terms and conditions of the benefit payable to the Participant in the automatic and optional forms described in Sections 7.02(a) and 7.03. Such explanation shall include a general description of the eligibility conditions for, and the material features and relative values of, the automatic and optional forms of benefit under the Plan, any rights the Participant may have to defer commencement of his benefit, the requirement for Spousal Consent as provided in Section 7.04(a), and the right of the Participant to make and to revoke elections under Section 7.03. An election under Section 7.03 shall be made on a form provided by the Administrative Committee, and may be made only during the 90-day period ending on the Participant's Annuity Starting Date, but not prior to the date the Participant receives the written explanation described in this Section 7.04(b).

(c) An election of an option under Section 7.03 may be revoked on a form provided by the Administrative Committee, and subsequent elections and revocations may be made at any time and from time to time during the 90-day election period. An election of an optional benefit shall be effective on the Participant's Annuity Starting Date. A revocation of any election shall be effective when the completed form is filed with the Administrative Committee. If a Participant who has elected an optional benefit dies before the date the election of the option becomes effective, the election shall be revoked except as provided in Section 8.01. If the Beneficiary designated under an option dies before the date the election of the option becomes effective, the election shall be revoked.

(d) Notwithstanding the foregoing subsections, if a Participant, who has been given the written explanation described in Section 7.04(b) (referred to as the "Written Explanation"), affirmatively elects a form of distribution and, where applicable, the Participant's spouse consents to such form of distribution the Participant's Annuity Starting Date may be less than thirty (30) days after the Written Explanation is given to the Participant provided that:

(i) The Company notifies the Participant that he has the right to a period of at least thirty (30) days after receipt of the Written Explanation to consider whether or not to elect a distribution;

(ii) The Company notifies the Participant that he has the right

to revoke his election to commence receiving his distribution during the period ending seven (7) days after the Participant receives the Written Explanation, or, if later, the Participant's Annuity Starting Date;

(iii) The Participant's Annuity Starting Date is after the date the Written Explanation is provided to the Participant; provided, however, that the Participant's Annuity Starting Date may be before the Participant makes an affirmative election to commence distribution and before the expiration of the period described in Section 7.04(d)(ii); and

(iv) The actual distribution of benefits to the Participant does not commence before the expiration of the period described in Section 7.04(d)(ii).

7.05 Method of Payment for Eligible Rollover Distributions

(a) Notwithstanding any provision of the Plan to the contrary, effective January 1, 1993, if a Distributee is entitled to receive an Eligible Rollover Distribution which exceeds \$200, the Distributee may elect, at the time and in the manner prescribed by the Administrative Committee, and in accordance with this Section 7.05, to have his Eligible Rollover Distribution paid in accordance with one of the following methods:

(i) All of the Eligible Rollover distribution shall be paid directly to the Distributee;

(ii) All of the Eligible Rollover Distribution shall be paid as a Direct Rollover to the Eligible Retirement Plan designated by the Distributee; or

(iii) The portion of the Eligible Rollover Distribution designated by the Participant, which portion shall be at least \$500, shall be paid as a Direct Rollover to the Eligible Retirement Plan designated by the Distributee and the balance of the Eligible Rollover Distribution shall be paid directly to the Distributee.

(b) No less than 30 days and no more than 90 days prior to the Distributee's Annuity Starting Date, the Administrative Committee shall provide the Distributee with an election form and a notice that satisfies the requirements of Section 1.411(a)-11(c) of the Income Tax Regulations and Section 402(f) of the Code. In the event the Distributee does not return the signed election form by his Annuity Starting Date, he shall be deemed to have elected the method of payment described in Section 7.05(a)(i).

(c) Notwithstanding the provisions of Section 7.05(b) above, distributions paid in accordance with Section 7.05(a) may commence less than 30 days after the material described in Section 7.05(b) is given to the Distributee provided that:

(i) If the Distributee is the Participant, the Actuarial

Equivalent of the Participant's vested Accrued Pension does not exceed \$5,000 (\$3,500 prior to August 5, 1997);

(ii) If the Distributee is the Participant's Spouse, the Actuarial Equivalent of the Spouse's Pension does not exceed \$5,000 (\$3,500 prior to August 5, 1997);

- (iii) The Distributee is notified that he has the right to a period of at least 30 days after receipt of the material to consider whether or not to elect a distribution; and
- (iv) After receipt of such notification, he affirmatively elects to receive a distribution.
- (d) The following definitions apply to the terms used in this Section 7.05:
- (i) “Eligible Rollover Distribution” means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:
- (A) Any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee’s designated beneficiary, or for a specified period of ten years or more;
- (B) Any distribution to the extent such distribution is required under Section 401(a)(9) of the Code;
- (C) The portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and
- (D) Any other type of distribution that the Internal Revenue Service announces (pursuant to regulation, notice or otherwise) is not an Eligible Rollover Distribution pursuant to Section 402(c) of the Code.
- (ii) “Eligible Retirement Plan” means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee’s Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.
- (iii) “Distributee” includes an Employee or former Employee. In addition, the Employee’s or former Employee’s surviving Spouse and the Employee’s or former Employee’s Spouse or
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former Spouse who is the “alternate payee,” as defined in Section 414(p)(8) of the Code, pursuant to a Qualified Domestic Relations Order are Distributees with regard to the interest of the Spouse or former Spouse.

- (iv) “Direct Rollover” means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

7.06 Commencement of Payments

- (a) Except as otherwise provided in this Article 7, payment of a Participant’s Pension shall begin as soon as administratively practicable following the latest of (i) the date the Participant attains age 65, (ii) the fifth anniversary of the date on which he became a Participant, or (iii) the date the Participant terminates service with the Employer (but not more than 60 days after the close of the Plan Year in which the latest of (i), (ii) or (iii) occurs).
- (b) Notwithstanding the foregoing, distributions to a Participant shall be required by the April 1 following the calendar year in which he/she attains age seventy and one-half (70.5) or retires, except that a distribution to a Participant who owns five percent (5%) or more of the outstanding stock of the Employer (or stock possessing more than five percent (5%) of the total combined voting power of all Employer stock, a (“5% owner”) must commence by the April 1 of the calendar year in which he or she attains age seventy and one-half (70.5).

In the event a Participant’s benefit commences under this subsection while the Participant is in active service, such required beginning date shall be the Participant’s Annuity Starting Date for purposes of this Article 6, and the Participant shall receive a late retirement benefit commencing on or before his required beginning date in an amount determined as if he had retired on his required beginning date. As of each succeeding January 1 prior to the Participant’s actual late retirement date and as of his actual late retirement date, the Participant’s benefit shall be recomputed to reflect additional accruals. The Participant’s recomputed benefit shall then be reduced by the Actuarial Equivalent value of the total payments of his late retirement benefits, which were paid prior to each such recomputation, to arrive at the Participant’s late retirement benefit; provided that no such reduction shall reduce the Participant’s late retirement benefit below the amount of any late retirement benefit payable to the Participant prior to the recomputation of his benefit.

- (c) In the event a Participant remains in service after the end of the calendar year in which he attains age 70.5, and payment of the Participant’s benefit is not required to commence under Section 7.06(c) above, then the benefit upon his late retirement shall be equal to the greater of:
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- (i) His Accrued Benefit as of his actual retirement date; or
- (ii) His Accrued Benefit as of the April 1st that next follows the Plan Year in which he attains age 70.5 recomputed in accordance with regulations issued by the Secretary of the Treasury as of the first day of each subsequent Plan Year (and as of his actual retirement date), less the Actuarial Equivalent of any distribution he has received, if any, subsequent to the aforementioned April 1st.
- (d) Notwithstanding any provision of this Plan to the contrary, all Plan distributions shall conform to the regulations issued under Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Further, such regulations shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

With respect to distributions made under this subsection for calendar years beginning on or after January 1, 2001, the Plan will apply the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code in accordance with the regulations under section 401(a)(9) that were

proposed on January 17, 2001, notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of final regulations under section 401(a)(9) or such other date as may be specified in guidance published by the Internal Revenue Service.

Notwithstanding the foregoing, Participants who attained age 70.5 prior to January 1, 1997 shall continue to receive minimum distributions in accordance with the terms of the Plan in effect at that time.

Article 8. Death Benefits

8.01 Spouse's Pension

(a) If a married Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date and while in the active service of the Employer or an Affiliated Employer after having met the requirements for any vested Pension, a Pension shall be payable to his surviving Spouse for life in accordance with the following:

(i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Spouse's Pension shall be an amount payable as if the Participant had retired and elected the 100% Joint and Survivor Annuity described in Section 7.03(a)(i) on the day before his death. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the Participant's date of death, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would

have attained age 65.

(ii) If the Participant dies before a date on which he could have retired, the Spouse's Pension shall be an amount payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the 100% Joint and Survivor Annuity described in Section 7.03(a)(i), and (D) the Participant died on the day after the earliest date he could have retired. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the earliest date the Participant could have retired, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(b) If a married Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date and after having terminated from the Employer or an Affiliated Employer after having become entitled to a vested Pension, a Pension shall be payable to his surviving Spouse for life in accordance with the following:

(i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Spouse's Pension shall be an amount payable as if the Participant had retired and elected the 75% Joint and Survivor Annuity described in Section 7.03(a)(i) on the day before his death. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the Participant's date of death, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(ii) If the Participant dies before a date on which he could have retired, the Spouse's Pension shall be an amount payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the 75% Joint and Survivor Annuity described in Section 7.03(a)(i), and (D) the Participant died on the day after the earliest date he could have retired. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the earliest date the Participant could have retired, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(c) If a married Participant, who is not credited with an Hour of

Service on or after January 1, 1995, and who is not on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date and after having become entitled to a vested Pension, a Pension shall be payable to his surviving Spouse for life in accordance with the terms of the Plan in effect on December 31, 1994.

(d) In any case, an immediate lump sum payment, which is equal to the Actuarial Equivalent of the Spouse's Pension shall be made in lieu of the Spouse's Pension if the value of the lump sum payment is equal to or less than \$5,000 (prior to August 5, 1997 this amount was \$3,500). The lump sum payment may be made at any time on or after the date the Participant dies. However, if a lump sum payment is to be made after payment of the Spouse's Pension is to commence, the Spouse must consent in writing to such form of distribution.

8.02 Children's Pension

(a) If a Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date after having met the requirements for any vested Pension, and the Participant is not survived by a Spouse, but is survived by a child or children who are under the age of 23, a Pension shall be payable to such surviving child or children in equal shares. The total amount of the Pension payable to the surviving child or children shall be equal to the following:

(i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Pension payable as if the Participant had retired on the day before his death.

(ii) If the Participant dies before a date on which he could have retired, the Actuarial Equivalent of the Pension payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, and (B) the Participant retired on the earliest date he could have retired.

Such benefit shall be payable until each such child attains age 23; provided, however, that such annuity shall be payable for a minimum of 60 months.

(b) If a Participant's surviving Spouse dies after benefits have commenced pursuant to Section 8.01, and the Surviving Spouse is survived by a child or children of the Participant who are under the age of 23, a Pension equal to the benefit received by the surviving Spouse pursuant to Section 8.01 prior to her death shall be payable to such surviving child or children in equal shares until each one attains age 23; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as

of January 1, 1995, such annuity shall be payable for a minimum of 60 months (including the payments to the Spouse).

(c) In any case, an immediate lump sum payment, which is equal to the Actuarial Equivalent of the Pension payable to the surviving child or children shall be made in lieu of such Pension if the value of the lump sum payment is equal to or less than \$5,000 (prior to August 5, 1997 this amount was \$3,500). The lump sum payment may be made at any time on or after the date the Participant or Spouse dies, whichever is applicable.

8.03 Death Benefit Payable to Participant's Estate

If a Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date after having met the requirements for any vested Pension, and the Participant is not survived by a Spouse or children under the age of 23, a single lump sum payment shall be immediately payable to his estate in an amount equal to the Actuarial Equivalent of the following:

(a) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Pension payable as if the Participant had retired on the day before his death and elected the Five Year Certain and Life Annuity described in Section 7.03(a)(ii).

(b) If the Participant dies before a date on which he could have retired, the Pension payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the Five Year Certain and Life Annuity described in Section 7.03(a)(ii), and (D) the Participant died on the day after the earliest date he could have retired.

8.04 Accumulated Contributions

In the event that a Participant's Accumulated Contributions exceed the aggregate benefits paid under the Plan to the Participant and each of the Participant's Beneficiaries as of the date that such payments cease under the terms of the Plan (or if no payments are otherwise payable under the terms of the Plan), an immediate lump sum distribution of such excess shall be payable in the following order of priority: (a) to the Participant's surviving child or children in equal shares, (b) the estate of the last to die of the surviving children, (c) to the Participant's Beneficiary, (d) the estate of the Participant's Beneficiary, or (e) the estate of the Participant.

Article 9. Administration of the Plan

9.01 Appointment of Administrative Committee

The general administration of the Plan and the responsibility for carrying out the provisions of the Plan shall be placed in the Administrative Committee appointed by the President of the Company to serve at the pleasure of the President. The Administrative Committee shall be composed of at least 3 members. Any person appointed a member of the Administrative Committee shall signify his acceptance by filing written acceptance with the President of the Company. Any member of the Administrative Committee may resign by delivering his written resignation to the President of the Company.

9.02 Duties of Administrative Committee

The members of the Administrative Committee (i) shall elect a chairperson from their number and a secretary who may be, but need not be, one of the members of the Administrative Committee; (ii) may appoint from their number such subcommittees with such powers as they shall determine; (iii) may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; (iv) may retain counsel, employ agents and provide for such clerical, accounting, actuarial and consulting services as they may require in carrying out the provisions of the Plan; and (v) may allocate among themselves or delegate to other persons all or such portion of their duties under the Plan, other than those granted to the Trustee under the trust instrument adopted for use in implementing the Plan, as they, in their sole discretion, shall decide.

9.03 Meetings

The Administrative Committee shall hold meetings upon such notice, at such place or places, and at such time or times as the members of the Administrative Committee may from time to time determine.

9.04 Action of Majority

Any act which the Plan authorizes or requires of the Administrative Committee shall be done by a majority of its members. The action of that majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Administrative Committee and shall have the same effect for all purposes as if assented to by all members of the Administrative Committee at the time in office.

9.05 Compensation and Bonding

No member of the Administrative Committee shall receive any compensation from the Plan for his services as such. The Company shall purchase such bonds as may be required under ERISA.

9.06 Establishment of Rules

Subject to the limitations of the Plan, the Administrative Committee shall prescribe such forms, make such rules, regulations, interpretations and computations, and shall take such other action to administer the Plan, as it may deem appropriate. In administering the Plan, the Administrative Committee shall act in a uniform and

nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

9.07 Manner of Administering

The Administrative Committee shall have the sole and complete discretion to interpret and administer the terms of the Plan and to determine eligibility for benefits and the amount of any such benefits pursuant to the terms of the Plan, and in so doing the Administrative Committee may correct defects, supply omissions and reconcile inconsistencies to the extent necessary to effectuate the Plan, and such actions shall be binding and conclusive on all persons.

9.08 Prudent Conduct

The members of the Administrative Committee shall use that degree of care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation.

9.09 Service In More Than One Fiduciary Capacity

Any individual, entity or group of persons may serve in more than one fiduciary capacity with respect to the Plan and/or the funds of the Plan.

9.10 Limitation of Liability

The Employer, the members of the Board of Directors, the members of the Administrative Committee, and any officer, employee or agent of the Employer shall not incur any liability individually or on behalf of any other individuals or on behalf of the Employer for any act, or failure to act, made in good faith in relation to the Plan or the funds of the Plan. However, this limitation shall not act to relieve any such individual or the Employer from a responsibility or liability for any fiduciary responsibility, obligation or duty under Part 4, Title I of ERISA.

9.11 Indemnification

The members of the Administrative Committee, members of the Board of Directors, officers, employees and agents of the Employer shall be indemnified against any and all liabilities arising by reason of any act, or failure to act, in relation to the Plan or the funds of the Plan, including, without limitation, expenses reasonably incurred in the defense of any claim relating to the Plan or the funds of the Plan, and amounts paid in any compromise or settlement relating to the Plan or the funds of the Plan, except for willful and intentional actions or failures to act. The foregoing indemnification shall be from the funds of the Plan to the extent of those funds and to the extent permitted under applicable law; otherwise from the assets of the Employer.

9.12 Expenses of Administration

All expenses that arise in connection with the administration of the Plan, including but not limited to the compensation of the Trustee, administrative expenses and proper charges and disbursements of the

Trustee and compensation and other expenses and charges of any enrolled actuary, counsel, accountant, specialist, or other person who has been retained by the Administrative Committee in connection with the administration thereof, shall be paid from the Trust to the extent not paid by the Employer.

9.13 Claims and Review Procedures

(a) Applications for benefits and inquiries concerning the Plan (or concerning present or future rights to benefits under the Plan) shall be submitted to the Administrative Committee in writing. An application for benefits shall be submitted on the prescribed form and shall be signed by the applicant.

(b) In the event that an application for benefits is denied in whole or in part, the Administrative Committee shall notify the applicant in writing of the denial and of the right to review of the denial. The written notice shall set forth, in a manner calculated to be understood by the applicant, specific reasons for the denial, specific references to the provisions of the Plan on which the denial is based, a description of any information or material necessary for the applicant to perfect the application, an explanation of why the material is necessary, and an explanation of the review procedure under the Plan. The written notice shall be given to the applicant within a reasonable period of time (not more than 90 days) after the Administrative Committee receives the application, unless special circumstances require further time for processing and the applicant is advised of the extension. In no event shall the notice be given more than 180 days after the Administrative Committee receives the application.

(c) An applicant whose application for benefits was denied in whole or part, or the applicant's duly authorized representative, may appeal the denial by submitting to the Administrative Committee a request for a review of the application within 60 days after receiving written notice of the denial from the Administrative Committee. The Administrative Committee shall give the applicant or his representative an opportunity to review pertinent materials, other than legally privileged documents, in preparing the request for a review. The request for a review shall be in writing and addressed to the Administrative Committee. The request for a review shall set forth all of the grounds on which it is based, all facts in support of the request and any other

matters that the applicant deems pertinent. The Administrative Committee may require the applicant to submit such additional facts, documents or other materials as it may deem necessary or appropriate in making its review.

(d) The Administrative Committee shall act on each request for a review within 60 days after receipt, unless special circumstances require further time for processing and the applicant is advised of the extension. In no event shall the decision on review be rendered more than 120 days after the Administrative Committee receives the request for a review. The Administrative Committee shall give prompt written notice of its decision to the applicant. In the event that the Administrative Committee

confirms the denial of the application for benefits in whole or in part, the notice shall set forth, in a manner calculated to be understood by the applicant, the specific reasons for the decision and specific references to the provisions of the Plan on which the decision is based.

(e) No legal action for benefits under the Plan shall be brought unless and until the claimant (i) has submitted a written application for benefits in accordance with paragraph (a), (ii) has been notified by the Administrative Committee that the application is denied, (iii) has filed a written request for a review of the application in accordance with paragraph (c) and (iv) has been notified in writing that the Administrative Committee has affirmed the denial of the application; provided, however, that legal action may be brought after the Administrative Committee has failed to take any action on the claim within the time prescribed by paragraphs (b) and (d) above.

Article 10. Management of Funds

10.01 The Trustee

All the funds of the Plan shall be held in the Trust by a Trustee appointed from time to time by the Company under a trust instrument adopted, or as amended, by the Company for use in providing the benefits of the Plan and paying its expenses not paid directly by an Employer. No Employer shall have any liability for the payment of benefits under the Plan nor for the administration of the Trust held by the Trustee.

10.02 Exclusive Benefit Rule

Except as otherwise provided in the Plan, no part of the corpus or income of the funds of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons entitled to benefits under the Plan, and paying Plan expenses not otherwise paid by the Employer, before the satisfaction of all liabilities with respect to them. No person shall have any interest in or right to any part of the earnings of the Trust, or any right in, or to, any part of the assets held under the Plan, except as and to the extent expressly provided in the Plan.

10.03 Appointment of Investment Manager

The Company, in its sole discretion, shall determine the investment policy for the Plan. However, the Company may, in its sole discretion, appoint one or more Investment Managers to manage the assets of the Plan (including the power to acquire and dispose of all or part of such assets) as the Company shall designate. In that event, the authority over and responsibility for the management of the assets so designated shall be the sole responsibility of that Investment Manager.

Article 11. Amendment, Merger and Termination

11.01 Amendment of the Plan

The Company, by action of its Board of Directors, may at any time and from time to time, and retroactively if deemed necessary or appropriate, amend in whole or in part any or all of the provisions of the Plan. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan, before the satisfaction of all liabilities with respect to them. No amendment shall be made which has the effect of decreasing the Accrued Pension of any Participant or of reducing the nonforfeitable percentage of the Accrued Pension of a Participant below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted or, if later, the date on which the amendment becomes effective. No amendment shall be made which affects the rights, duties or responsibilities of the Trustee unless the Trustee provides written consent to such amendment.

11.02 Merger or Consolidation

The Company may, in its sole discretion, merge this Plan with another qualified plan, subject to any applicable legal requirements. However, the Plan may not be merged or consolidated with, and its assets or liabilities may not be transferred to, any other plan unless each person entitled to benefits under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

11.03 Additional Participating Employers

(a) If any company is now or becomes a subsidiary or associated company of an Employer, the Company may include the employees of that company as participants in the Plan upon appropriate action by that company necessary to adopt the Plan. In that event, or if any persons become Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another company, the Company shall determine to what extent, if any, credit and benefits shall be granted for previous service with the subsidiary, associated or other company, but subject to the continued qualification of the trust for the Plan as tax-exempt under the Code.

(b) Any subsidiary or associated company may terminate its participation in the Plan upon appropriate action by it. In that event, the Company may, in its sole discretion (i) retain all or a portion of the Participants in the employ of that associated company as terminated participants in the

Plan or (ii) direct that the Trustee segregate the funds of the Plan held on account of all or a portion of the Participants in the employ of that associated company, and direct that the segregated assets be spun

off into a separate plan to be administered by the associated company.

11.04 Termination of the Plan

The Company, by action of its Board of Directors, may terminate the Plan for any reason at any time. In case of termination of the Plan, the rights of Participants to their Accrued Pensions as of the date of the termination, to the extent then funded or protected by law, if greater, shall be nonforfeitable. The funds of the Plan shall be used for the exclusive benefit of persons entitled to benefits under the Plan as of the date of termination, except as provided in Section 3.06. However, any funds not required to satisfy all liabilities of the Plan for benefits because of erroneous actuarial computation shall be returned to the Company. The Administrative Committee shall determine on the basis of actuarial valuation the share of the funds of the Plan allocable to each person entitled to benefits under the Plan in accordance with Section 4044 of ERISA, or corresponding provision of any applicable law in effect at the time. In the event of a partial termination of the Plan, the provisions of this Section 11.04 shall be applicable to the Participants affected by that partial termination.

Article 12. General Provisions

12.01 Nonalienation; Qualified Domestic Relations Orders

(a) Except as required by any applicable law, no benefit under the Plan shall in any manner be anticipated, assigned or alienated, and any attempt to do so shall be void. However, payment shall be made in accordance with the provisions of any Qualified Domestic Relations Order.

(b) An immediate lump sum payment, which is the Actuarial Equivalent of the series of payments provided for in a Qualified Domestic Relations Order, shall be made in lieu of the series of payments if the value of the lump sum payment is \$3,500 or less.

12.02 Conditions of Employment Not Affected by Plan

The establishment of the Plan shall not confer any legal rights upon any Employee or other person for a continuation of employment, nor shall it interfere with the right of the Employer (which right is hereby reserved) to discharge any Employee and to treat him without regard to the effect which that treatment might have upon him as a Participant or potential Participant of the Plan.

12.03 Facility of Payment

(a) If the Administrative Committee finds that a Participant or other person entitled to a benefit is unable to care for his affairs because of illness or accident, the Administrative Committee may direct that any benefit due him, unless a claim has been made for the benefit by a duly appointed legal representative, be paid to his Spouse, a child, a parent or other blood relative, or to a

person with whom he resides. Any payment so made shall be a complete discharge of the liabilities of the Plan for that benefit.

(b) If the Administrative Committee finds that a Participant or other person entitled to a benefit is a minor, the Administrative Committee may direct that any benefit due him, unless a claim has been made for the benefit by a duly appointed legal representative, be paid in the following order of preference: (i) to the minor's custodial parent(s); (ii) if no custodial parent of the minor is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides; (iii) if the Administrative Committee decides not to select a custodian pursuant to subparagraph (ii), to the duly appointed and currently acting guardian of the estate of the minor; or (iv) if no guardian of the estate of the minor is duly appointed or currently acting within 60 days of the date the amount becomes payable, to the court having jurisdiction over the estate of the minor.

12.04 Information

(a) Each Participant, Beneficiary or other person entitled to a benefit, before any benefit shall be payable to him or on his account under the Plan, shall file with the Administrative Committee the information that it shall require to establish his rights and benefits under the Plan.

(b) If a Participant in his application for retirement income, or in response to any request by the Employer or Administrative Committee for information, makes any statement which is erroneous or omits any material fact or fails before receiving his first payment to correct any information that he previously incorrectly furnished to the Employer or the Administrative Committee for its records, the amount of his Pension shall be adjusted on the basis of the current facts, and the amount of any overpayment or underpayment made to the Participant shall be deducted from, or added to, his next succeeding payments as the Administrative Committee shall direct.

12.05 (Reserved)

12.06 Proof of Death and Right of Beneficiary or Other Person

The Administrative Committee may require and rely upon such proof of death and such evidence of the right of any Beneficiary or other person to receive the value of the Plan benefits of a deceased Participant as the Administrative Committee may deem proper, and its determination of death and of the right of that Beneficiary or other person to receive payment shall be conclusive.

12.07 Failure to Locate Recipient

In the event that the Administrative Committee is unable to locate a

Participant or Beneficiary who is entitled to payment under the Plan within 7 years from the date such payment was to have been made, the amount to which such Participant or Beneficiary was entitled shall be declared a forfeiture and shall be used to reduce future Employer contributions to the Plan. If the Participant or Beneficiary is later located, the benefit which was previously forfeited hereunder shall be restored by means of an additional Employer contribution to the Plan, if necessary.

12.08 Action by the Board of Directors

Any action required or permitted to be taken by the Board of Directors under the Plan shall be by resolution adopted by the Board of Directors at a meeting held either in person or by telephone or other electronic means, or by unanimous written consent in lieu of a meeting. The Board of Directors may, in its discretion, appoint the Executive Committee or another Committee to take those actions on its behalf which are the responsibility of the Board of Directors in accordance with the terms of the Plan.

12.09 Construction

- (a) The Plan shall be construed, regulated and administered pursuant to the laws of the State of California, except where ERISA controls.
- (b) If any provision of this instrument is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.
- (c) The use of the masculine pronoun in this Plan shall include the feminine pronoun wherever appropriate, and vice versa.
- (d) The use of the singular form of a word in this Plan shall include the plural form wherever appropriate, and vice versa.
- (e) The titles and headings of the Articles and Sections in this Plan are for convenience only. In the case of ambiguity or inconsistency, the text rather than the titles or headings shall control.

Execution of the Plan

The Farmer Bros. Co. Retirement Plan is hereby executed this 27th day of February, 2002.

/s/ John E. Simmons
(Signature)

Treasurer
(Title)

Appendix A. Maximum Annual Benefit Limitation and Maximum Annual Additions Limitation

Section 6.01 of the Plan shall be construed in accordance with this Appendix A. Unless the context clearly requires otherwise, words and phrases used in this Appendix A shall have the same meanings that are assigned to them under the Plan.

The Plan Year shall be considered a “limitation year” for purposes of this Appendix A and Section 415 of the Code.

A.01 Definitions

The following words and phrases, when used in this Appendix A with an initial capital letter, shall have the following meanings, unless the context clearly indicates otherwise:

“Annual Additions” on behalf of a Participant under the Plan or any other qualified plan maintained by the Employer or an Affiliated Employer for the Plan Year shall not include transfers to the Plan from any other qualified plan but shall include:

- (a) The total contributions made on behalf of the Participant by the Employer and all Affiliated Employers under any qualified Defined Contribution Plan,
- (b) With respect to limitation years beginning before 1987, the lesser of the part of the Participant’s contributions in excess of 6% of his Section 415 Compensation or one-half of his total contributions to any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,
- (c) With respect to Limitation Years beginning after 1986, all of the Participant’s contributions to any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,

- (d) Forfeitures, if applicable, that have been allocated on behalf of the Participant under any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,
- (e) Voluntary or mandatory contributions made by the Participant under this Plan or another qualified Defined Benefit Plan maintained by the Employer or an Affiliated Employer, and
- (f) Contributions made on behalf of the Participant to an “individual medical benefit account” under a pension or annuity plan maintained by the Employer or an Affiliated Employer, as described, and to the extent required, under Section 415(l) of the Code.

“Defined Benefit Plan” means any qualified pension plan which is not a Defined Contribution Plan; however, in the case of a Defined Benefit Plan which provides a benefit which is based partly on the balance of the separate account of a participant, that plan shall be treated as a Defined Contribution Plan to the extent benefits are based on the separate account of a participant and as a Defined Benefit Plan with respect to the remaining portion of the benefits under the plan.

“Defined Benefit Plan Fraction” for any limitation year is a fraction -

- (a) The numerator of which is the projected annual benefit of the Participant (determined as of the close of the limitation year) under all Defined Benefit Plans maintained by the Employer or an Affiliated Employer; and
- (b) The denominator of which is the lesser of (i) or (ii) below:
 - (i) The product of 1.25 multiplied by the defined benefit plan dollar limitation under Section 415(b)(1)(A) of the Code (automatically adjusted each year as described in Section A.02(d)) in effect for such limitation year; or
 - (ii) The product of 1.4 multiplied by an amount that is 100% of the Participant’s average Section 415 Compensation for the

three consecutive years in which his Section 415 Compensation was the highest.

“Defined Contribution Plan” means any qualified pension plan which provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant’s account, and any income, expenses, gains and losses, and any forfeitures of accounts of other participants which may be allocated to that participant’s accounts, subject to the limitations described in the definition of “Defined Benefit Plan” above.

“Defined Contribution Plan Fraction” for any limitation year is a fraction —

- (a) The numerator of which is the sum of the Annual Additions made by the Employer or an Affiliated Employer on behalf of the Participant for such limitation year and all prior limitation years; and
- (b) The denominator of which is the sum of the lesser of (i) or (ii) below determined for such limitation year and for each prior year of service with the Employer or an Affiliated Employer:
 - (i) The product of 1.25 multiplied by the defined contribution plan dollar limitation under Section 415(c)(1)(A) of the Code (automatically adjusted every year as described in Section A.02(d)); or
 - (ii) The product of 1.4 multiplied by an amount equal to 25% of the Participant’s Section 415 Compensation for such year.

At the direction of the Administrative Committee, the portion of the denominator of that fraction with respect to limitation years ending before 1983 shall be computed as the denominator for the limitation year ending in 1982, as determined under the law as then in effect, multiplied by a fraction the numerator of which is the lesser of:

- (A) \$51,875; or
 - (B) 1.4 multiplied by 25% of the Participant’s Section 415 Compensation for the limitation year ending in 1981;
- and the denominator of which is the lesser of:
- (A) \$41,500; or
 - (B) 25% of the Participant’s Section 415 Compensation for that limitation year.

“Section 415 Compensation” means wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer or an Affiliated Employer to

the extent that the amounts are includible in gross income (including, but not limited to, commissions paid salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements, and expense allowances), and excluding:

- (a) Contributions made by the Employer or an Affiliated Employer on behalf of the Participant to the Plan or any other plan of deferred compensation maintained by the Employer or an Affiliated Employer;
- (b) Amounts realized from the exercise of a non-qualified stock option;

- (c) Amounts realized when restricted stock is no longer subject to substantial risk of forfeiture;
- (d) Amounts realized from the disposition of stock acquired under a qualified stock option; and
- (e) Other amounts that receive special tax benefits.

Effective January 1, 1998, Section 415 Compensation also includes any pre-tax contributions pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 401(k), 402(g)(3), 402(h)(1)(B) or 403(b) of the Code. On or after January 1, 2001, Code Section 132(f) transportation benefits are also included in determining Section 415 Compensation.

“Social Security Retirement Age” means age 65 with respect to a Participant who was born before January 1, 1938; age 66 with respect to a Participant who was born after December 31, 1937, and before January 1, 1955; and age 67 with respect to a Participant who was born after December 31, 1954.

A.02 Adjustments to Maximum Annual Benefit Limitation

- (a) The maximum annual benefit limitation described in Section 6.01(a) shall be subject to the following adjustments:

- (i) Less than 10 Years of Participation. If the Participant has not been a Participant in the Plan for at least 10 years, the maximum annual benefit limitation in Section 6.01(a)(i) shall be multiplied by the ratio that the number of years of his participation in the Plan bears to 10.

- (ii) Less than 10 Years of Vesting Service. If the Participant has not completed 10 Years of Vesting Service, the maximum annual benefit limitation in Section 6.01(a)(ii) shall be multiplied by the ratio that the number of his Years of Vesting Service bears to 10.

- (iii) Payment Before Age 62. If the benefit begins before the Participant attains age 62, the maximum annual benefit

limitation in Section 6.01(a)(i) shall be equal to the lesser of the Actuarial Equivalent of the maximum annual benefit limitation at age 62 (as determined in accordance with Section A.02(a)(iv) below) calculated using the following:

- (i) The early retirement factors prescribed in the Plan (or in the absence of prescribed factors, the mortality table and interest rate prescribed in the definition of Actuarial Equivalent); or

- (ii) The IRS Mortality Table and an interest rate equal to 5%. Notwithstanding the foregoing, the mortality decrement shall be applied only on a post-retirement basis where the Plan benefits are not subject to forfeiture upon the Participant's death prior to his Annuity Starting Date.

- (iv) Payment After Age 62 And Before Social Security Retirement Age. If the benefit begins before the Participant's Social Security Retirement Age but on or after the date he attains age 62, the maximum annual benefit limitation in Section 6.01(a)(i) shall be reduced by 5/9 of one percent for each of the first 36 months plus 5/12 of one percent for each additional month by which the Participant is younger than the Social Security Retirement Age at the date his benefit begins.

- (v) Payment After Social Security Retirement Age. If the benefit begins after the Participant's Social Security Retirement Age, the maximum annual benefit limitation in Section 6.01(a)(i) shall be equal to the lesser of the Actuarial Equivalent of the maximum annual benefit limitation at the Participant's Social Security Retirement Age calculated using:

- (i) The deferred retirement factors prescribed in the Plan (or in the absence of prescribed factors, the mortality table and interest rate prescribed in the definition of Actuarial Equivalent); or

- (ii) The IRS Mortality Table and an interest rate equal to 5%. Notwithstanding the foregoing, the mortality decrement shall be applied only on a post-retirement basis where the Plan benefits are not subject to forfeiture upon the Participant's death prior to his Annuity Starting Date.

- (b) The limitations in Section 6.01 shall not apply to any Participant who has not at any time participated in any Defined Contribution Plan maintained by the Employer or an Affiliated Employer if the Participant's total annual retirement benefit payable under the Plan and all other Defined Benefit Plans maintained by the Employer or an Affiliated Employer does not exceed \$10,000.

- (c) A Participant's benefit shall be subject to the following adjustments before the application of the maximum annual benefit limitation in Section 6.01(a) and, as so modified, shall be subject to such limitation:

- (i) If the Participant's benefit is payable as a joint and survivor annuity with his Spouse as the Beneficiary, the modification of the benefit for that form of payment shall be made before the application of the maximum limitation in Section 6.01(a) and, as so modified, shall be subject to the limitation.

- (ii) If the Participant's benefit is payable in a form that is neither described in Section A.01(c)(i) nor a straight life annuity, the Participant's benefit shall be converted to a straight life benefit before the application of the maximum benefit limitation in Section 6.01(a)(i) and, as so modified, shall be subject to such limitation. For purposes of the subsection, the straight life benefit shall be equal to the greater of the Actuarial Equivalent of the benefit otherwise payable to the Participant' calculated using:

- (A) The optional benefit factors prescribed in the Plan (or in the absence of prescribed factors, the mortality table and interest rate prescribed in the definition of Actuarial Equivalent); or

(B) The IRS Mortality Table and an interest rate equal to 5%, or, if the form of benefit is subject to Section 417(e)(3) of the Code, an interest rate equal to the IRS Interest Rate.

(d) As of January 1 of each calendar year commencing on or after January 1, 1988, the dollar limitation as determined by the Commissioner of the Internal Revenue Service for that calendar year shall become effective as the maximum annual benefit limitation in Section 6.01(a)(i) during the limitation year ending within that calendar year.

A.03 Maximum Annual Additions Limitation

If a Participant's Annual Additions for any Plan Year would otherwise exceed the maximum Annual Additions limitation set for in Section 6.01(b), the excess Annual Additions for such Plan Year shall be reduced by reducing the contributions made on behalf of the Participant to the Defined Contribution Plans maintained by the Employer or an Affiliated Employer during such Plan Year in the manner and priority set forth in such plans.

A.04 Participant in a Defined Contribution Plan

This Section is repealed for Plan Years beginning January 1, 2000 and thereafter.

(a) If a Participant under this Plan has at any time participated in a Defined Contribution Plan maintained by the Employer or an Affiliated Employer, and if Annual Additions have been made on behalf of the Participant under such Defined Contribution Plan, the sum of the Participant's Defined Benefit Plan Fraction and Defined Contribution Plan Fraction shall not exceed 1.0.

(b) In the event the sum of a Participant's Defined Benefit Plan Fraction and Defined Contribution Plan Fraction exceeds 1.0, his benefits under, and contributions to, all plans shall be accomplished by first reducing the benefits otherwise payable to the Participant under this Plan or any other Defined Benefit Plan in which the Participant participates (in such priority as shall be determined by the Administrative Committee for this Plan and the administrators of such other plans), and second by reducing the contributions made on behalf of the Participant to Defined Contribution Plans in which the Participant participates in the manner and priority set forth in such plans. The necessary reductions may, however, be made in a different manner and priority pursuant to the agreement of the Administrative Committee for this Plan and the administrators of all other plans in which the Participant participates.

A.05 Preservation of Current Accrued Pension

Notwithstanding anything to the contrary contained in this Appendix A, a Participant's annual benefit payable under the Plan, prior to any reduction required by operation of Section A.04, shall in no event be less than:

(a) The benefit that the Participant had accrued under the Plan as of the end of the Plan Year beginning in 1982, with no changes in the terms and conditions of the Plan on or after July 1, 1982, taken into account in determining that benefit; or

(b) The benefit that the Participant had accrued under the Plan as of the end of the Plan Year beginning in 1986, with no changes in the terms and conditions of the Plan after May 5, 1986, taken into account in determining that benefit.

Appendix B. Top-Heavy Provisions

Section 6.02 of the Plan shall be construed in accordance with this Appendix B. Unless the context clearly requires otherwise, words and phrases used in this Appendix B shall have the same meanings that are assigned to them under the Plan.

B.01 General Definitions

The following words and phrases, when used in this Appendix B with an initial capital letter, shall have the following meanings, unless the context clearly indicates otherwise:

“Applicable Determination Date” means the last day of the later of the

first Plan Year or the preceding Plan Year (where two or more plans are aggregated and they do not have the same Plan Year, the Applicable Determination Date for each plan shall be such date for each plan which falls within the same calendar year).

“Applicable Valuation Date” means the valuation date coincident with or immediately preceding the last day of the first Plan Year or the preceding Plan Year, whichever is applicable.

“Average Remuneration” means the average annual Remuneration of a Participant for the five consecutive years of Benefit Service after December 31, 1983, during which he receives the greatest aggregate Remuneration from the Employer or an Affiliated Employer, excluding any Remuneration for service after the last Plan Year with respect to which the Plan is top-heavy.

“Key Employee” means an Employee who is in a category of Employees determined in accordance with the provisions of Sections 416(i)(1) and (5) of the Code and any regulations thereunder, and where applicable, on the basis of the Employee's Remuneration from the Employer or an Affiliated Employer.

“Non-Key Employee” means any Employee who is not a Key Employee.

“Permissive Aggregation Group” means each qualified plan in the Required Aggregation Group and any other qualified plan(s) of the Employer or an Affiliated Employer in which all Participants are Non-Key Employees if the resulting aggregation group continues to meet the requirements of Sections

401(a)(4) and 410 of the Code.

“Remuneration” means “Section 415 Compensation” (as defined in Appendix A), except that Remuneration for purposes of this Appendix B shall not exceed the Maximum Compensation Limitation for any Plan Year.

“Required Aggregation Group” means any other qualified plan(s) of the Employer or an Affiliated Employer in which there are Participants who are Key Employees or which enable(s) the Plan to meet the requirements of Sections 401(a)(4) and 410 of the Code.

“Top-Heavy Ratio” means the ratio of (a) the present value of the Accrued Pensions under the Plan for Key Employees to (b) the present value of the Accrued Pensions under the Plan for all Key Employees and Non-Key Employees. The Top-Heavy Ratio shall be determined as of the Applicable Valuation Date in accordance with Sections 416(g)(3) and (4) of the Code utilizing the Plan’s actuarial funding assumptions. For purposes of determining the Top-Heavy Ratio:

- (a) The present value of Accrued Pensions under the Plan shall be combined with the present value of accrued pensions or account balances under each other qualified plan in the Required Aggregation Group and, in the discretion of the Administrative Committee, may be combined with the present value of accrued pensions or account balances under any other qualified plan in the Permissive Aggregation Group;
- (b) The present value of accrued pensions or account balances of all Non-Key Employees who were Key Employees during any prior Plan

Year shall not be taken into account;

- (c) Distributions made during the five-year period ending on the Applicable Determination Date shall be taken into account; and
- (d) The present value of accrued pensions or account balances of Participants who have not performed services for the Employer or an Affiliated Employer during the five-year period ending on the Applicable Determination Date shall not be taken into account.

B.02 Top-Heavy Definition

The Plan shall be “top-heavy” with respect to any Plan Year if, as of the Applicable Determination Date, the Top-Heavy Ratio exceeds 60%.

B.03 Provisions Applicable When The Plan Is Top-Heavy

- (a) The following provisions shall be applicable to Participants for any Plan Year with respect to which the Plan is top-heavy:
 - (i) The Accrued Pension of a Participant who is a Non-Key Employee shall not be less than 2% of his Average Remuneration multiplied by the number of years of his Benefit Service, not in excess of 10, during the Plan Years after 1983 for which the Plan is top-heavy. That minimum benefit shall be payable at a Participant’s Normal Retirement Date. If payments commence at a time other than the Participant’s Normal Retirement Date, the minimum Accrued Pension shall be the Actuarial Equivalent of that minimum benefit.
 - (ii) A Participant shall vest in his Accrued Pension Derived from Employer Contributions in accordance with the following schedule in lieu of the provisions of Section 4.01(b):

Years of Vesting Service Vesting Percentage	
Less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 or more	100%

However, in no event shall the Participant’s vested percentage in his Accrued Pension Derived from Employer Contributions determined under this Section B.03(a)(ii) be less than the Participant’s vested percentage determined under Section 4.01(b).

- (iii) The 1.25 multiplier in the definitions of “Defined Benefit Plan Fraction” and “Defined Contribution Plan Fraction” in Section A.01 of Appendix A shall be reduced to 1.0, and the \$51,875 dollar amount in the definition of “Defined Contribution Plan Fraction” in Section A.01 of Appendix A

shall be reduced to \$41,500.

- (b) If the Plan is top-heavy with respect to a Plan Year and ceases to be top-heavy for a subsequent Plan Year, the following provisions shall be applicable:
 - (i) The Accrued Pension in any such subsequent Plan Year shall not be less than the minimum Accrued Pension provided in Section B.03(a)(i) computed as of the end of the most recent Plan Year for which the Plan was top-heavy.
 - (ii) If a Participant has completed three Years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting schedule set forth in Section B.03(a)(ii) shall continue to be applicable.
 - (iii) If a Participant has completed at least two, but less than three, Years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting provisions of Section 4.01(b) shall again be applicable; provided however, that in no event shall the

vested percentage of a Participant's Accrued Pension Derived from Employer Contributions be less than the percentage determined under Section B.03(a)(ii) as of the last day of the most recent Plan Year for which the Plan was top-heavy.

Appendix C. Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees (Effective January 1, 1994)

Beginning January 1, 1994, the provisions of this Appendix C shall apply (a) in the event the Plan is terminated, to any Participant who is a Highly Compensated Employee or former Highly Compensated Employee of the Employer or an Affiliated Employer, and (b) in any other event, to any Participant who is one of the 25 highest compensated employees or former highest compensated employees of the Employer or Affiliated Employer with the greatest compensation in any Plan Year.

C.01 Restrictions

The amount of the annual payments to any one of the Participants to whom this Appendix C applies shall not be greater than the sum of:

- (a) An amount equal to the payments that would be made on behalf of the Participant under a single life annuity that is the Actuarial Equivalent of the sum of the Participant's Accrued Pension and other benefits under the Plan (other than a social security supplement), and
- (b) The amount of the payments the Participant is entitled to receive, if any, under a social security supplement.

C.02 Limitation on Restrictions

- (a) If, after payment of benefits to any one of the Participants to whom this Appendix C applies, the value of Plan assets equals or exceeds 110% of the value of current liabilities (as that term is defined in Section 412(l)(7) of the Code) of the Plan, the provisions of Section C.01 shall not be applicable to the payment of benefits to such Participant.
- (b) If the value of the Accrued Pension and other benefits of any one of the Participants to whom this Appendix C applies is less than 1% of the value of current liabilities (as that term is defined in Section 412(l)(7) of the Code) of the Plan, the provisions of Section C.01 shall not be applicable to the payment of benefits to such Participant.
- (c) If the Actuarial Equivalent of the Accrued Pension and other benefits of any one of the Participants to whom this Appendix C applies does not exceed \$5,000 (\$3,500 prior to August 5, 1997), the provisions of Section C.01 shall not be applicable to the payment of benefits to such Participant.
- (d) To the extent permitted by law, if any Participant to whom this Appendix C applies elects to receive a lump sum payment in lieu of his benefit and the provisions of Section C.01 are not met with respect to such Participant, the Participant shall be entitled to receive his benefit in full provided he (i) agrees to repay to the Plan any portion of the lump sum payment which would be restricted by operation of the provisions of Section C.01 and (ii) provides adequate security to guarantee that repayment in accordance with rules established by the Internal Revenue Service.
- (e) In the event the Plan is terminated, the restrictions of this Appendix C shall not be applicable if the benefits payable to any Highly Compensated Employee and any former Highly Compensated Employee are limited to a benefit that is nondiscriminatory under Section 401(a)(4) of the Code.
- (f) If it is subsequently determined by statute, court decision acquiesced in by the Commissioner of Internal Revenue, or ruling by the Commissioner of Internal Revenue, that the provisions of this Appendix C are no longer necessary to qualify the Plan under the Code, this Appendix C shall be ineffective without the necessity of further amendment to the Plan.

Appendix D. Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees (Effective January 1, 1989, Through December 31, 1993)

For the period beginning January 1, 1989, and ending December 31, 1993, the provisions of this Appendix D shall apply to any Participant who is one of the 25 highest paid Employees of the Employer on any Commencement Date and whose anticipated annual Pension provided under the Plan at Normal Retirement Date exceeds \$1,500. "Commencement Date"

means the Effective Date of the Plan or the effective date of any amendment to the Plan which increases the benefits.

- (a) If the Plan is terminated during the first 10 years after a Commencement Date, the amount of the Pension provided under the Plan for any one of the Participants to whom this Appendix D applies shall not be greater than the amount of Pension that can be provided by the largest of the following amounts:
 - (i) The Employer's contributions (or funds attributable to those contributions) which would have been applied to provide the Pension if the Plan as in effect on the date before that Commencement Date had been continued without change;
 - (ii) \$20,000;
 - (iii) The sum of (A) the Employer's contributions (or funds attributable to those contributions) which would have been applied to provide benefits for the Employee if the Plan had been terminated on the day before that Commencement Date, plus (b) an amount computed by multiplying the smaller of \$10,000 or 20 percent of the average annual remuneration of that Employee during the last five years of service, by the number of years since that Commencement Date; or

(iv) The present value of the maximum benefit guaranteed by the Pension Benefit Guaranty Corporation (PBGC), as described in Section 4022(b)(3)(B) of ERISA, determined on the basis of the actuarial assumptions promulgated by the PBGC applicable as of the date of termination of the Plan or the date Pension payments commence, whichever is earlier.

(b) Any excess reserves arising by application of the provisions of paragraph (a) above shall be used and applied as provided in the Plan for the benefit of the other persons entitled to benefits under the Plan. However, if sufficient funds are available to provide in full for the Pensions accrued for all other persons entitled to benefits under the Plan to the date of termination of the Plan, those excess reserves shall first be used and applied to provide the accrued Pensions of the Participants whose Pensions have been restricted by operation of the provisions of this Appendix D.

**FARMER BROS. CO.
AMENDED AND RESTATED
EMPLOYEE STOCK OWNERSHIP PLAN**

Effective January 1, 2000

**as Amended by Amendment No. 1
(Effective as of January 1, 2002)**

**as Amended by Amendment No. 2
(Effective as of January 1, 2003)**

**and as Amended by Amendment No. 3
(Effective as of December 17, 2003)**

**FARMER BROS. CO.
EMPLOYEE STOCK OWNERSHIP PLAN**

ARTICLE 1. DEFINITIONS

- 1.01 “*Account*” means the Account established for a Member pursuant to Section 9.03 into which shall be credited the contributions made on a Member’s behalf, Company Stock released from the Suspense Account for the Member, and earnings on those contributions and that Company Stock.
- 1.02 “*Affiliate*” means any company which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which also includes as a member the Company; any trade or business under common control (as defined in Section 414(c) of the Code) with the Company; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code. Notwithstanding the foregoing, for purposes of Sections 1.27 and 3.03, the definitions in Sections 414(b) and (c) of the Code shall be modified by substituting the phrase “more than 50 percent” for the phrase “at least 80 percent” each place it appears in Section 1563(a)(1) of the Code.
- 1.03 “*Annual Dollar Limit*” means \$150,000, as adjusted from time to time for cost of living in accordance with Section 401(a)(17)(B) of the Code. The Annual Dollar Limit for Plan Years beginning after December 31, 2001, shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code.
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- 1.04 “*Beneficiary*” means any person, persons or entity designated by a Member to receive any benefits payable in the event of the Member’s death. However, a married Member’s spouse shall be the Member’s Beneficiary unless or until he or she elects another Beneficiary with Spousal Consent. If no Beneficiary designation is in effect at the Member’s death, or if no person, persons or entity so designated survives the Member, the Member’s surviving spouse, if any, shall be deemed to be the Beneficiary; otherwise the Beneficiary shall be the personal representative of the estate of the Member.
- 1.05 “*Board of Directors*” means the Board of Directors of the Company or any authorized committee thereof.
- 1.06 “*Break in Service*” means an event affecting forfeitures, which shall occur when an Employee is credited with less than 500 Hours of Service in any Plan Year. However, if an Employee is absent from work immediately following his or her active employment, irrespective of whether the Employee’s employment is terminated, because of the Employee’s pregnancy, the birth of the Employee’s child, the placement of a child with the Employee in connection with the adoption of that child by the Employee or for purposes of caring for that child for a period beginning immediately following that birth or placement, a Break in Service shall occur only if the Member does not return to work within one (1) year of the date he or she began his or her leave from active employment for the above-stated reasons. A Break in Service shall not occur during an approved leave of absence or during a period of military service that is included in the Employee’s Vesting Service pursuant to Section 1.34.

- 1.07 “*Code*” means the Internal Revenue Code of 1986, as amended from time to time.
- 1.08 “*Committee*” means the persons named by the Board of Directors to administer and supervise the Plan as provided in Article 9.
- 1.09 “*Company*” means Farmer Bros. Co.

- 1.10 “*Company Stock*” means the shares of common stock of the Company or shares of preferred or preference stock of the Company that are convertible into such common stock provided that, in either event, such stock is an “employer security” within the meaning of Section 409(1) of the Code.
- 1.11 “*Compensation*” means wages as defined under Section 3401(a) of the Code (for purposes of income tax withholding at the source), but determined without regard to any rules under Section 3401(a) of the Code that limit the remuneration included in wages based on the nature or location of the employment or the services performed. However, notwithstanding the foregoing, for purposes of this Plan, Compensation shall: (a) include any salary deferral reductions pursuant to Section 401(k) of the Code or pursuant to a cafeteria plan as defined in Section 125 of the Code; (b) any imputed income for automobile allowance or company-paid life insurance for the Member (including amounts for which the Employer or Affiliated Employer is required to furnish a written statement pursuant to Section 6052 of the Code); and (c) not exceed the maximum statutory Annual Dollar Limit.

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- 1.12 “*Disability*” means total and permanent physical or mental disability, as determined under the Company’s long-term disability program as in effect from time to time.
- 1.13 “*Effective Date*” means January 1, 2000.
- 1.14 “*Eligible Employee*” means an Employee regularly employed by an Employer who receives stated compensation other than a pension, severance pay, retainer, or fee under contract; however, the term “Eligible Employee” excludes (a) any person who is included in a unit of Employees covered by a collective bargaining agreement which does not provide for his or her membership in the Plan, and (b) any non-resident alien with no US-source income. In addition, any person classified as an independent contractor or consultant by the Employer shall, during such period, be excluded from the definition of Eligible Employee, regardless of such person’s reclassification for such period by the Internal Revenue Service for tax withholding purposes.
- 1.15 “*Employee*” means any individual who is employed by the Employer or an Affiliate as a common law employee of the Employer or Affiliate, regardless of whether the individual is an “Eligible Employee,” and any Leased Employee.
- 1.16 “*Employer*” means the Company or any successor by merger, purchase or otherwise, with respect to its Employees; or any other company participating in the Plan as provided in Section 12.03, with respect to its Employees.

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- 1.17 “*Employer Contributions*” means all amounts contributed pursuant to Section 3.01 of the Plan.
- 1.18 “*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 1.19 “*Financed Shares*” means shares of Company Stock, whether allocated or unallocated, which have been purchased by means of an Exempt Loan.
- 1.20 “*Hour of Service*” means, with respect to any applicable computation period,
- (a) each hour for which the Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliate; and
 - (b) each hour for which the Employee is paid or entitled to payment by the Employer or an Affiliate on account of a period during which no duties are performed, whether or not the employment relationship has terminated, due to vacation, holiday, illness, incapacity (including Disability), layoff, jury duty, military duty or leave of absence, but not more than 501 hours for any single continuous period; and each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or an Affiliate, excluding any hour credited under (a) or (b), which shall be credited to the computation period or periods to which the award, agreement or payment pertains rather than to the

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computation period in which the award, agreement or payment is made.

No hours shall be credited on account of any period during which the Employee performs no duties and receives payment solely for the purpose of complying with unemployment compensation, workers’ compensation or disability insurance laws. The Hours of Service credited shall be determined as required by Title 29 of the Code of Federal Regulations, Sections 2530.200b-2(b) and (c). Notwithstanding the foregoing, solely to the extent required by law, an Employee who is absent from employment because of an authorized leave of absence under the Family and Medical Leave Act of 1993 shall receive credit for Hours of Service during such absence.

- 1.21 “*Leased Employee*” means any person performing services for the Employer or an Affiliate as a leased employee as defined in Section 414(n) of the Code. In the case of any person who is a Leased Employee before or after a period of service as an Eligible Employee, the

entire period during which he or she has performed services as a Leased Employee shall be counted as service as an Eligible Employee for all purposes of the Plan, except that he or she shall not, by reason of that status, become a Member of the Plan.

- 1.22 “*Member*” means any person included in the membership of the Plan as provided in Article 2.

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- 1.23 “*Plan*” means the Farmer Bros. Co. Employee Stock Ownership Plan, as set forth in this document or as amended from time to time.
- 1.24 “*Plan Year*” means the 12-month period beginning on any January 1.
- 1.25 “*Retirement*” means termination of employment from an Employer and all Affiliates after the earlier of (a) attainment of age 65 or (b) attainment of age 55 and completion of ten (10) years of Vesting Service.
- 1.26 “*Severance Date*” means the earlier of (a) the date an Employee quits, retires, is discharged or dies, or (b) the last day of an authorized leave of absence, or if later, the first anniversary of the date on which an Employee is first absent from service, with or without pay, for any reason such as vacation, sickness, Disability, layoff or leave of absence.
- 1.27 “*Suspense Account*” means the account comprised of unallocated shares of Company Stock maintained in accordance with Section 5.03.
- 1.28 “*Spousal Consent*” means the written consent of a Member’s spouse to the Member’s designation of a specified Beneficiary. The spouse’s consent shall be witnessed by a Plan representative or notary public. The consent of the spouse shall also acknowledge the effect on him or her of the Member’s election. The requirement for Spousal Consent may be waived by the Committee if it believes there is no spouse, that the spouse cannot be located, that a legal separation has occurred, or because of such other circumstances as may be established by applicable law.

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- 1.29 “*Trust*” or “*Trust Fund*” means the fund established by the Board of Directors as part of the Plan into which contributions are to be made and from which benefits are to be paid in accordance with the terms of the Plan.
- 1.30 “*Trustee*” means the trustee or trustees holding the funds of the Plan as provided in Article 10.
- 1.31 “*Valuation Date*” means the last business day of each calendar quarter.
- 1.32 “*Vesting Service*” means the summation of the Years of Service an Employee has been credited since the Employee’s hire date. An Employee shall earn one (1) “*Year of Service*” for each Plan Year during which he/she is credited with at least one thousand (1,000) Hours of Service.

Notwithstanding the foregoing, the following apply for purposes of crediting vesting within this section:

- (a) If an Employee is absent from the service of the Employer or any Affiliate because of service in the Armed Forces of the United States and he or she returns to service with the Employer, or an Affiliate, having applied to return while his or her reemployment rights were protected by law, the absence shall be included in his or her Vesting Service;
- (b) If an Employee’s employment terminates after he or she has vested in his or her Account pursuant to Section 6.01 and he or she is reemployed, his or her Vesting Service after reemployment shall

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be aggregated with his or her previous period or periods of Vesting Service; and

- (c) If an Employee’s employment terminates before he or she has vested in his or her Account pursuant to Section 6.01 and he or she is reemployed after he or she has incurred a Break in Service, his or her Vesting Service after reemployment shall be aggregated with his or her previous period or periods of Vesting Service (other than Vesting Service not required to be aggregated pursuant to this paragraph (c) by reason of a prior termination of employment) if the date of such reemployment is prior to the date as of which such Employee had incurred five (5) consecutive Breaks in Service.

ARTICLE 2. MEMBERSHIP

2.01 Membership

Each Eligible Employee shall become a Member on the Plan’s Effective Date as long as he or she is at least age eighteen (18). Each other Eligible Employee shall be eligible to become a Member on the first day of the Plan Year coinciding with or immediately following the date he or she has attained his or her 18th birthday, provided he or she is an Eligible Employee.

Any person reemployed by the Employer as an Eligible Employee, who was previously a Member or who was previously eligible to become a Member, shall

become a Member immediately upon reemployment. Any person reemployed by the Employer as an Eligible Employee, who was not previously eligible to become a Member, shall become a Member upon completing the eligibility requirements described in Section 2.01.

2.03 *Transferred Members*

Notwithstanding any provision of the Plan to the contrary, a Member who remains in the employ of the Employer or an Affiliate but ceases to be an Eligible Employee shall continue to be a Member of the Plan but shall only be eligible to receive allocations of Employer Contributions with respect to Compensation.

2.04 *Termination of Membership*

A Member's membership shall terminate on his or her Severance Date unless he or she is entitled to benefits under the Plan, in which event his or her membership shall terminate when those benefits are distributed to him or her in full.

ARTICLE 3. CONTRIBUTIONS

3.01 *Employer Contributions*

- (a) The Employer may make Employer Contributions to the Plan on account of any Plan Year, in Company Stock or cash, in the manner and amount to be determined by the Board of Directors. Employer Contributions shall be made on behalf of each Member who (i) is an Eligible Employee on the last day of the Plan Year and who completed at least 1,000 Hours of Service during such

Plan Year; or (ii) is an Eligible Employee who terminated employment during such Plan Year by reason of death, Disability, or Retirement. At the time of determining an Employer Contribution for a Plan Year, the Board of Directors may specify a target percentage of Compensation with respect to allocations for such Plan Year. In no event, however, shall the Employer Contributions for any Plan Year exceed the maximum amount deductible from the Employer's income for that Plan Year under Section 404(a)(3)(A) of the Code or any statute of similar import. The Employer Contributions shall be paid to the Trust Fund no later than the time (including extensions) prescribed by law for the filing of the Employer's federal income tax return for the year for which the contributions are made;

- (b) Except as provided in Section 5.04, shares of Company Stock released from the Suspense Account for that Plan Year and any Employer Contributions for that Plan Year not used to repay an Exempt Loan shall be allocated as of the last Valuation Date (or such earlier Valuation Date as the Committee shall determine) in the Plan Year to the Accounts of Members on behalf of whom contributions were made for that Plan Year pursuant to paragraph (a), in the ratio that the Compensation of each such Member bears to the total Compensation of all such Members for the Plan Year, subject to the limitations described in Section 3.03. In no event

shall more than one-third of the Employer Contributions to the Plan be allocated to Members who are highly compensated employees as defined in Section 414(q) of the Code; and

- (c) Notwithstanding paragraphs (a) and (b) above, each Employer may make an additional Employer Contribution to the Plan, in Company Stock or cash, at a time and in an amount determined by the Board of Directors. Such contribution, or shares of Company Stock released from the Suspense Account by reason of the use of such contribution to repay an Exempt Loan, shall be allocated to the Accounts of Members who were entitled to an allocation under paragraph (b) for the preceding Plan Year and who terminated employment during the period beginning with the first day of the Plan Year in which such additional contribution is made and ending on a date specified by the Board of Directors at the time of determining the additional contribution, and to such Members who have not terminated service, in an amount which, when added to the initial allocation for the preceding Plan Year, results in a total allocation for such Plan Year equal to the target percentage of each such Member's Compensation for the preceding Plan Year which had been specified by the Board of Directors when determining the Employer Contribution under paragraph (a). Any allocation of an additional contribution made pursuant to this paragraph (c) shall be made as of the last Valuation Date in the Plan Year preceding the

Plan Year in which such contribution is made unless otherwise specified by the Board of Directors, shall be subject to the limitation of Section 3.03, and shall comply with the last sentence of paragraph (b).

3.02 *Member Contributions*

No Member shall be required or permitted to make any contributions under this Plan.

3.03 *Maximum Annual Additions*

- (a) The annual addition to a Member's Account for any Plan Year, which shall be considered the "limitation year" for purposes of Section 415 of the Code, when added to the Member's annual addition for that Plan Year under any other qualified defined contribution plan of the Employer or an Affiliate, shall not exceed an amount which is equal to the lesser of (i) 25 percent of his or her aggregate remuneration for that Plan Year or (ii) \$30,000, as adjusted pursuant to Section 415(d) of the Code. Notwithstanding the foregoing, for limitation years beginning on or after January 1, 2002, the annual additions that may be contributed or allocated to a Member's Account under the Plan shall not exceed the lesser of:
 - (i) Forty Thousand Dollars (\$40,000), as adjusted for increases in the cost of living under Section 415(d) of the Code, or

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- (ii) One Hundred Percent (100%) of the Member's aggregate remuneration for that Plan Year.

The compensation limit referred to in (ii) above shall not apply to any contribution for medical benefits after separation from service (within the meaning of 401(h) or Section 419A(f)(2) of the Code) which is otherwise treated as an annual addition;

- (b) For purposes of this Section, the "annual addition" to a Member's Account under this Plan or any other qualified defined contribution plan (including a deemed qualified defined contribution plan under a qualified defined benefit plan) maintained by the Employer or an Affiliate shall be the sum of:
 - (i) the total contributions made on the Member's behalf by the Employer and all Affiliates;
 - (ii) all Member contributions, exclusive of any rollover contributions;
 - (iii) forfeitures; and
 - (iv) amounts described in Sections 415(l)(1) and 419A(d)(2) allocated to the Member;
- (c) For purposes of this Section, the term "remuneration" with respect to any Member shall mean the wages, salaries and other amounts

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paid in respect of such Member by the Employer or an Affiliate for personal services actually rendered, and shall include amounts contributed by the Employer pursuant to a salary reduction agreement which are not includible in the gross income of the Employee under Section 125, 402(g) or 457 of the Code, but shall exclude deferred compensation, stock options and other distributions which receive special tax benefits under the Code;

- (d) In the event that the Committee determines that the allocation of a contribution would cause the restriction imposed by paragraph (a) to be exceeded, allocations shall be reduced in the following order, but only to the extent necessary to satisfy such restrictions:
 - (i) first, the annual additions under any other qualified defined contribution plan maintained by an Employer or an Affiliate; and
 - (ii) second, the annual additions under this Plan.
- (e) If the annual addition to a Member's Account for any Plan Year, prior to the application of the limitation set forth in paragraph (a) above, exceeds that limitation due to a reasonable error in estimating a Member's annual compensation or in determining the amount of Employer Contributions that may be made with respect to a Member under Section 415 of the Code, or as the result of the allocation of forfeitures, the amount of contributions credited to the

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Member's Account in that Plan Year shall be adjusted to the extent necessary to satisfy that limitation in accordance with the following order of priority:

- (i) first, the annual additions under any other qualified defined contribution plan maintained by an Employer or an Affiliate; and
- (ii) second, the annual additions under this Plan.

If it becomes necessary to make an adjustment in annual additions to a Member's Account under this Plan, either because of the limitations as applied to this Plan alone or as applied to this Plan in combination with another plan, the excess annual addition under this Plan with respect to the affected Member shall be reallocated proportionately in the same manner as Employer Contributions are allocated to the Accounts of other Members until the annual addition to the Account of each Member reaches the limits of Section 415 of the Code. If such limits are reached and there are remaining excess Employer Contributions, such contributions shall be placed in an unallocated suspense account and allocated in subsequent years before any Employer Contributions are made.

3.04 *Return of Contributions*

- (a) If all or part of the Employer's deductions for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of

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the contributions to which that disallowance applies shall be returned to the Employer without interest but reduced by any investment loss attributable to those contributions, provided that the contribution is returned within one year after the disallowance of deduction. For this purpose, all contributions made by the Employer are expressly declared to be conditioned upon their deductibility under Section 404 of the Code; and

- (b) The Employer may recover without interest the amount of its contributions to the Plan made on account of a mistake of fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.

ARTICLE 4. VALUATION OF THE ACCOUNTS

4.01 *Investment of the Trust Fund*

- (a) Except to the extent used to repay an Exempt Loan, Employer Contributions to the Plan shall be invested in shares of Company Stock. Consistent with the Plan's status as an employee stock ownership plan under Section 4975(e)(7) of the Code, the Trustee may keep such amounts of cash, securities or other property as it, in its sole discretion, shall deem necessary or advisable as part of the Trust Fund, all within the limitations specified in the trust agreement; and

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- (b) Dividends, interest, and other distributions received on the assets held by the Trustee in respect to the Trust Fund shall be reinvested in the Trust Fund, except as otherwise may be provided in Article 5 with respect to dividends on Company Stock.

4.02 *Valuation of the Trust Fund*

The Trustee shall value the Trust Fund at least annually. On each Valuation Date there shall be allocated to the Account of each Member his or her proportionate share of the increase or decrease in the fair market value of his or her Account in the Trust Fund. Whenever an event requires a determination of the value of the Member's Account, the value shall be computed as of the Valuation Date coincident with or immediately following the date of determination, subject to the provisions of Section 4.03.

4.03 *Right to Change Procedures*

The Committee reserves the right to change from time to time the procedures used in valuing the Account or crediting (or debiting) the Account if it determines, after due deliberation and upon the advice of counsel and/or the current record keeper, that such an action is justified in that it results in a more accurate reflection of the fair market value of assets. In the event of a conflict between the provisions of this Article and such new administrative procedures, those new administrative procedures shall prevail.

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4.04 *Statement of Account*

At least once a year, each Member shall be furnished with a statement setting forth the value of his or her Account and the vested portion of his or her Account.

4.05 *Plan Expenses*

To the extent the Company does not choose to pay for them, all routine Plan administrative expenses for such services as Account recordkeeping, required audits and governmental filings shall be paid by the Plan.

**ARTICLE 5. ACQUISITION OF COMPANY STOCK WITH PROCEEDS
OF AN EXEMPT LOAN**

5.01 *Purchase of Company Stock*

- (a) The Plan is an employee stock ownership plan (an “ESOP”), which is designed to invest primarily in qualified employer securities. The Board of Directors, in its discretion, may direct the Trustee to acquire Company Stock with the proceeds of an Exempt Loan; and
- (b) Company Stock acquired by the Trustee hereunder may be purchased on an established securities market, from the Company or from any other person or entity. However, Company Stock acquired from a “disqualified person,” as defined in Section 4975(e)(2) of the Code, may not be purchased at a price in excess of “adequate consideration,” as defined in Section 3(18) of ERISA.

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5.02 *Exempt Loan*

An Exempt Loan shall be used primarily for the benefit of Members and their Beneficiaries, shall be for a specific term, shall bear a reasonable rate of interest, and shall not be payable on demand, except in the event of default. In the event of default, the value of Plan assets transferred in satisfaction of the Exempt Loan shall not exceed the amount of default. An Exempt Loan may be secured by a collateral pledge of the Company Stock acquired with the proceeds of such loan, contributions (other than contributions of Company Stock) that are made under the ESOP to meet its obligations under the Exempt Loan and earnings attributable to such collateral and the investment of such contributions, but no other assets of the Trust may be pledged as collateral for the Exempt Loan and no lender shall have recourse against any assets of the Trust, except to the extent permitted under Reg. §54.4975-7(b)(5). Any pledge of Company Stock shall provide for the release of shares so pledged on a pro rata basis as principal and interest on the Exempt Loan are repaid by the Trustee; provided however, that an alternative method of releasing such stock from encumbrance may be utilized if permitted by applicable regulations under Section 4975 of the Code and the Committee adopts such method. Such stock shall be allocated as provided in Section 3.01(b).

5.03 *Suspense Account; Dividends on Unallocated Stock*

- (a) Company Stock acquired with the proceeds of an Exempt Loan shall be held in the Suspense Account and shall be allocated to the Members’ Accounts based on the release of Company Stock from the

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Suspense Account. During the term of the Exempt Loan, a number of shares of Company Stock shall be released per Plan Year equal to the number of shares in the Suspense Account multiplied by a fraction, the numerator of which shall be the amount of principal and interest paid by the Trustee on the Exempt Loan for the Plan Year, and the denominator of which shall be the sum of the numerator and the aggregate principal and interest to be paid by the Trustee on the Exempt Loan for all future Plan Years; provided, however, that an alternative method of releasing such stock from encumbrance may be utilized if permitted by applicable regulations under Section 4975 of the Code and the Committee adopts such method.

For this purpose, the number of future years under the Exempt Loan must be definitely ascertainable and must be determined without taking into account any possible extensions or renewal periods. If the interest rate under the Exempt Loan is variable, the interest to be paid in future years shall be computed by using the interest rate applicable as of the end of the calendar year. Shares may also be released from the Suspense Account more frequently than annually, provided in such event that the total number of shares of Company Stock released during a Plan Year shall not be less than the number of shares that would have been released from the Suspense Account during such Plan Year if such release had occurred on an annual basis; and

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- (b) Any cash dividends received by the Trustee on shares of Company Stock held in the Suspense Account shall be applied to the payment of any outstanding obligations of the Trust under any Exempt Loan (and shall be invested in an interest bearing or other fixed income investment pending such payment) unless, in the sole discretion of the Committee, the Trustee is directed to use such dividends to buy additional shares of Company Stock. Any shares of Company Stock released from the Suspense Account due to application of such dividends to the repayment of an Exempt Loan or purchased using such dividends shall be allocated to Members’ Accounts on the basis set forth in Section 3.01(b).

Unless, in the sole discretion of the Committee, the Trustee is directed that dividends that are payable with respect to Company Stock that is allocated to a Member's Account may be (a) accumulated in the Member's Account and used to buy additional Company Stock, (b) paid directly to the Member in cash (to the extent such direct payment may be effectuated), or (c) paid to the Trust and distributed by the Trustee in cash to the Member not later than 90 days after the close of the Plan Year in which paid to the Trust, then such dividends shall be applied to the payment of outstanding obligations of the Trust under any Exempt Loan; provided however, that this provision shall only be effective if Company Stock with a fair market value not less than the amount of dividends so applied is allocated to the Member's Account for the Plan Year in which the dividends were

paid to the Trust. The excess, if any, of the fair market value of Company Stock released from the Suspense Account by reason of the application of dividends described in this Section 5.04 over the fair market value of Company Stock allocated to a Member's Account pursuant to the proviso in the immediately preceding sentence shall be allocated among Members' Accounts on the basis set forth in Section 3.01(b).

ARTICLE 6. VESTED PORTION OF ACCOUNTS

6.01 *Vesting Schedule*

- (a) A Member shall be vested in, and have a nonforfeitable right to, his or her Account upon completion of five (5) years of Vesting Service; and
- (b) Notwithstanding the foregoing, a Member shall be 100 percent vested in, and have a nonforfeitable right to, his or her Account upon death, Disability, or the later of the attainment of his or her 55th birthday or the tenth anniversary of the date he or she becomes a Member.

6.02 *Disposition of Forfeitures*

Upon termination of employment of a Member who was not vested in his or her Account, his or her Account shall be forfeited. The Member shall be deemed to have received a distribution of the zero, vested benefit upon his or her termination of employment. If the former Member is reemployed by the Employer or an

Affiliate before incurring a period of Break in Service of five years, his or her Account shall be restored. The Committee shall direct the Trustee to apply any amounts forfeited pursuant to this Section to (a) restore amounts previously forfeited by the Member but required to be reinstated upon resumption of employment, (b) reduce Employer contributions, or (c) reallocate to Members in the same manner as contributions under Section 3.01(b). If forfeitures arising during any Plan Year are insufficient to restore forfeited amounts to the Accounts of Members pursuant to this Section 6.02, the Employer shall contribute the balance required for that purpose.

ARTICLE 7. DISTRIBUTION AND TRANSFERS OF ACCOUNT

7.01 *Eligibility*

- (a) Upon a Member's termination of employment, the vested portion of his or her Account, as determined under Article 6, shall be distributed as provided in this Article; and
- (b) An eligible Member may, in accordance with Section 7.04, request a transfer or distribution, whichever is applicable, from his or her Account, whether or not he or she has terminated employment.

7.02 *Time of Distribution*

- (a) Except as otherwise provided in this Article, distribution of the vested portion of a Member's Account shall commence as soon as administratively practicable, but not more than ninety (90) days,

following the later of (i) the last day of the Plan Year in which a Member incurs a Break in Service or (ii) the Member's 65th birthday (but not more than ninety (90) days after the close of the Plan Year in which the later of (b)(i) or (b)(ii) occurs);

- (b) A Member whose employment is terminated for any reason shall be entitled, upon written request, in accordance with procedures established by the Committee, to receive distribution of the entire vested interest in the Member's Account in accordance with either this Section 7.02 or Section 7.06. If the value of the vested portion of a Member's Account

exceeds \$5,000 and he or she does not consent in writing within 60 days (or such other period prescribed by the Committee) of his or her Severance Date to an immediate distribution to be made as soon thereafter as administratively practicable, distribution of the vested interest in the Member's Account shall be made as soon as practicable following the Valuation Date coincident with or immediately following the earliest of:

- (i) receipt by the Committee at least sixty (60) days (or such other period prescribed by the Committee) prior to such Valuation Date of the Member's written request for payment;
- (ii) the Member's attainment of age 65; or

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- (iii) the Member's death.

In the event an allocation of Employer Contributions and/or forfeitures is made to the Member's Account pursuant to Article 3 or Article 6 following the date on which a distribution is made hereunder, distribution of such contributions and/or forfeitures shall be made to the Member or Beneficiary in a single sum as soon as practicable following the date on which such allocation is made;

- (c) In the case of the death of a Member before the distribution of his or her Account, the vested portion of his or her Account shall be distributed to the Member's Beneficiary as soon as administratively practicable following the Valuation Date coincident with or next following the Member's date of death; and
- (d) The amount of a distribution made pursuant to this Section 7.02 shall be determined as of the applicable Valuation Date preceding the actual date of payment.

7.03 *Form and Manner of Distribution*

- (a) Distributions shall be paid in a single sum consisting of shares of Company Stock or cash, at the election of the Member or his or her Beneficiary. Unless the Member or Beneficiary elects to receive the distribution in Company Stock, such distribution shall be paid entirely in cash. If the distribution is made in Company Stock, any

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unpaid dividends which may be due and any balance in the Account representing fractional shares will be paid in cash. If the distribution is to be made in cash, the Trustee will, as soon as practicable after the Valuation Date following its receipt of notice of such distribution, sell the shares held in the Member's Account. Such Member or Beneficiary shall thereafter receive, entirely in cash, the proceeds of such sale, plus an additional cash amount representing fractional shares and any dividends that may be due;

- (b) Shares of Company Stock distributed to Members pursuant to Section 7.03 (a) that at the time of such distribution are not readily tradable on an established market shall be subject to a put option which shall permit the Member to sell such stock to the Company at any time during two option periods at the fair market value of such shares (as of the most recent Valuation Date). The first period shall be for at least 60 days beginning on the date of distribution. The second period shall be for at least 60 days beginning on the first Valuation Date in the calendar year following the year in which the distribution was made. The Company or the Committee may direct the Trustee to purchase shares tendered to the Company under a put option. Payment for any shares of stock sold under a put option shall be made in a lump sum or in substantially equal annual installments over a period not exceeding five years, with interest payable at a reasonable rate (as

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determined by the Committee). Except as may be permitted under applicable law or regulations, the rights of a distributee of Company Stock under this Section 7.03(b) shall survive the repayment of any relevant Exempt Loan, the termination of the Plan, and any amendment of the Plan; and

- (c) Notwithstanding the preceding and at the discretion of the Committee, any portion of a Member's vested Account which consists of Financed Shares shall not be distributed until any outstanding Exempt Loan has been completely repaid.

7.04 *Diversification of Account*

- (a) Each eligible Member (including each former Employee of an Employer) may make an annual election to transfer his or her Account to a plan designated for such purpose by the Committee. The election to effect such transfer shall be granted with respect to a period of six Plan Years ("Election Period") commencing with the Plan Year in which occurs the later of the Member's attainment of age 55 or the Member's completion of ten years of participation in the Plan. For each Plan Year within the Member's Election Period a Member may elect, within 90 days of the close of such Plan Year, to transfer all or a portion of his or her Account which is subject to this Section 7.04 ("Diversification Amount"). The

amount in the Account subject to this Section 7.04 shall be the excess of (i) over (ii) as follows:

- (i) 25% of the sum of (A) the balance of the Member's Account, determined as of the close of such Plan Year, and (B) the distributions received by and transfers made as result of his or her prior elections (provided that "50%" shall be substituted for "25%" for his or her final election within the Election Period), minus; and
 - (ii) the distribution received by and transfers made by the Member pursuant to his or her prior elections.
- (b) Notwithstanding Section 7.04(a) above, the Committee may allow Members the following diversification options in lieu of transfer to another plan:
- (i) Transfer the Diversification Amount to an individual retirement account (IRA);
 - (ii) Reallocate, at the discretion of the Member, the Diversification Amount among at least three (3) alternate investment options as chosen by the Committee for this purpose; or
 - (iii) Distribute the Diversification Amount in a single lump-sum payment directly to the Member.

- (c) If a Member elects to receive or have transferred an amount described in paragraph (a) or (b) above, such distribution or transfer shall be made within 90 days after the close of the applicable annual Election Period.

7.05 *Age 70½ Required Distribution*

- (a) Notwithstanding any provision of the Plan to the contrary, if a Member is a 5-percent owner (as defined in Section 416(i) of the Code), distribution of the Member's Account shall begin no later than the April 1 following the calendar year in which he or she attains age 70½. No minimum distribution payments will be made to a Member under the provisions of Section 401(a)(9) of the Code if the Member is not a 5-percent owner as defined above. However, if a Member who is not a 5-percent owner (as defined in Section 416(i) of the Code) attains age 70½ prior to January 1, 2000 and remains in service after the April 1 following the calendar year in which he or she attains age 70½, he or she may elect to have the provisions of paragraph (b) apply as if the Member was a 5-percent owner. Such election shall be made in accordance with such administrative procedures as the Committee shall prescribe;
- (b) In the event a Member is required to begin receiving payments while in service under the provisions of paragraph (a) above, the

Member may elect to receive payments while in service in accordance with option (i) or (ii), as follows:

- (i) A Member may receive one lump-sum payment on or before the Member's required beginning date equal to his or her entire Account balance and annual lump-sum payments thereafter of amounts accrued during each calendar year; or
- (ii) A Member may receive annual payments of the minimum amount necessary to satisfy the minimum distribution requirements of Section 401(a)(9) of the Code. Such minimum amount will be determined on the basis of the joint life expectancy of the Member and his or her Beneficiary. Such life expectancy will be recalculated once each year; however, the life expectancy of the Beneficiary will not be recalculated if the Beneficiary is not the Member's spouse.

An election under this Section shall be made by a Member by giving written notice to the Committee within the 90-day period prior to his or her required beginning date. The commencement of payments under this Section shall not constitute an annuity starting date for purposes of Sections 72, 401(a)(11) and 417 of the Code. Upon the Member's subsequent termination of employment, payment of the Member's Account shall be made in accordance with the provisions of Section 7.02. In the

event a Member fails to make an election under this Section, payment shall be made in accordance with clause (ii) above;

- (c) *Distribution Made After December 31, 2000.* With respect to age 70½ required distributions made under the Plan for calendar years beginning on or after January 1, 2001, the Plan will apply the minimum distribution requirements of Section 401(a)(9) of the Code in accordance with the regulations under Section 401(a)(9) that were proposed on January 7, 2001, notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of final regulations under Section 401(a)(9) or such other date as may be specified in guidance published by the Internal Revenue Service; and
- (d) *Minimum Distribution Requirements For Plan Years Beginning on or after January 1, 2003*
- (1) General Rules
 - (i) *Effective Date.* The provisions of this subsection will apply for purposes of determining required minimum distributions for Plan Years beginning with the 2003 calendar year. Required minimum distributions for Plan Years ending prior to January 1, 2003 shall be determined pursuant to subsection (c) above;

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- (ii) *Precedence.* The requirements of this Article will take precedence over any inconsistent provisions of the Plan; and
 - (iii) *Requirements of Treasury Regulations Incorporated.* All distributions required under this Article will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.
- (2) Time and Manner of Distribution
- (i) *Required Commencement Date.* The Member's entire interest will be distributed, or begin to be distributed, to the Member no later than the date stipulated in Subsection 7.05(a) above;
 - (ii) *Death of Member Before Distributions Begin.* If the Member dies before distributions begin, the Member's entire interest will be distributed, or begin to be distributed, no later than as follows:
 - (A) If the Member's surviving spouse is the Member's sole Designated Beneficiary, then, except as provided in any other section of the Plan, distributions to the surviving spouse will begin by December 31 of the calendar year immediately

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following the calendar year in which the Member died, or by December 31 of the calendar year in which the Member would have attained age 70½, if later;

- (B) If the Member's surviving spouse is not the Member's sole Designated Beneficiary, then, except as provided in any other section of the Plan, distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Member died;
- (C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Member's death, the Member's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Member's death; and
- (D) If the Member's surviving spouse is the Member's sole Designated Beneficiary and the surviving spouse dies after the Member but before distributions to the surviving spouse begin, this

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section, other than subsection (A) above, will apply as if the surviving spouse were the Member.

For purposes of this section and Section 7.05(d)(3) below, unless Subsection 7.05(d)(2)(ii)(D) applies, distributions are considered to begin on the Member's Required Commencement Date. If Subsection 7.05(d)(2)(ii)(D) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Subsection 7.05(d)(2)(ii)(A). If distributions under an annuity purchased from an insurance company irrevocably commence to the Member before the Member's Required Commencement Date (or to the Member's surviving spouse before the date distributions are required to begin to the surviving spouse under Subsection 7.05(d)(2)(ii)(A)), the date distributions are considered to begin is the date distributions actually commence.

- (iii) *Forms of Distribution.* Unless the Member's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Commencement Date, as of the first

thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations.

(3) Required Minimum Distributions During Member's Lifetime

- (i) *Amount of Required Minimum Distribution For Each Distribution Calendar Year.* During the Member's lifetime, the minimum amount that will be distributed for each Distribution Calendar Year is the lesser of:
 - (A) The quotient obtained by dividing the Member's Account Balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Member's age as of the Member's birthday in the Distribution Calendar Year; or
 - (B) If the Member's sole Designated Beneficiary for the Distribution Calendar Year is the Member's spouse, the quotient obtained by dividing the Member's Account Balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Member's and spouse's attained ages as of the Member's and

spouse's birthdays in the Distribution Calendar Year.

- (ii) *Lifetime Required Minimum Distributions Continue Through Year of Member's Death.* Required minimum distributions will be determined under this Section 7.05(d)(3) beginning with the first Distribution Calendar Year and up to and including the Distribution Calendar Year that includes the Member's date of death.

(4) Required Minimum Distributions After Member's Death.

- (i) *Death On or After Date Distributions Begin*
 - (A) *Member Survived by Designated Beneficiary.* If the Member dies on or after the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Member's death is the quotient obtained by dividing the Member's Account Balance by the longer of the remaining Life Expectancy of the Member or the remaining Life Expectancy of the Member's Designated Beneficiary, determined as follows:

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- (I) The Member's remaining Life Expectancy is calculated using the age of the Member in the year of death, reduced by one for each subsequent year;
 - (II) If the Member's surviving spouse is the Member's sole Designated Beneficiary, the remaining Life Expectancy of the surviving spouse is calculated for each Distribution Calendar year after the year of the Member's death using the surviving spouse's age as of the spouse's birthday in that year. For Distribution Calendar Years after the year of the surviving spouse's death, the remaining Life Expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year; and
 - (III) If the Member's surviving spouse is not the Member's sole Designated Beneficiary, the Designated Beneficiary's remaining Life Expectancy is calculated using the age of the

beneficiary in the year following the year of the Member's death, reduced by one for each subsequent year.

- (B) *No Designated Beneficiary.* If the Member dies on or after the date distributions begin and there is no Designated Beneficiary as of September 30 of the year after the year of the Member's death, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Member's death is the quotient obtained by dividing the Member's Account Balance by the Member's remaining Life Expectancy calculated using the age of the Member in the year of death, reduced by one for each subsequent year.
- (ii) *Death Before Date Distributions Begin.*
- (A) *Member Survived by Designated Beneficiary.* Except as otherwise provided in the Plan, if the Member dies before the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Member's death is the quotient obtained by dividing the Member's

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Account Balance by the remaining Life Expectancy of the Member's Designated Beneficiary, determined as provided in Section 7.05(d)(4);

- (B) *No Designated Beneficiary.* If the Member dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Member's death, distribution of the Member's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Member's death; and
- (C) *Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin.* If the Member dies before the date distributions begin, the Member's surviving spouse is the Member's sole Designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under Section 7.05(d)(2)(ii)(A), this Section 7.05(d)(4)(ii) will apply as if the surviving spouse were the Member.
- (e) *Definitions* — The following definitions apply to Section 7.05(d) only.

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- (i) *Designated Beneficiary.* The individual who is designated as the Beneficiary under Plan Section 1.05 and is the Designated Beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations;
- (ii) *Distribution Calendar Year.* A calendar year for which a minimum distribution is required. For distributions beginning before the Member's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year that contains the Member's Required Commencement Date. For distributions beginning after the Member's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin under Section 7.05(d)(2)(ii). The required minimum distribution for the Member's first Distribution Calendar Year will be made on or before the Member's Required Commencement Date. The required minimum distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Member's Required Commencement Date occurs, will be made on or before December 31 of that Distribution Calendar Year;

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- (iii) *Life Expectancy.* Life Expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations;
- (iv) *Member's Account Balance.* The Account Balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account Balance as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. The Account Balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the Distribution Calendar Year if distributed or transferred in the valuation calendar year; and
- (v) *Required Commencement Date.* The date specified in Section 7.05(a) of the Plan.

or less. The lump-sum payment shall automatically be made as soon as administratively practicable following the Member's termination of employment but not later than ninety (90) days after the Plan Year end in which he or she incurs a Break in Service.

7.07 *Status of Account Pending Distribution*

Until completely distributed under Section 7.03 or 7.05, the Account of a Member who is entitled to a distribution shall continue to be invested as part of the funds of the Plan.

7.08 *Proof of Death and Right of Beneficiary or Other Person*

The Committee may require and rely upon such proof of death and such evidence of the right of any Beneficiary or other person to receive the value of the Account of a deceased Member as the Committee may deem proper and its determination of the right of that Beneficiary or other person to receive payment shall be conclusive.

7.09 *Distribution Limitation*

Notwithstanding any other provision of this Article 7, all distributions from this Plan shall conform to the regulations issued under Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Further, such regulations shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

7.10 *Direct Rollover of Certain Distributions*

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The following definitions apply to the terms used in this Section:

- (a) "Eligible rollover distribution" means any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more, any distribution to the extent such distribution is required under Section 401(a)(9) of the Code, and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities);
- (b) "Eligible retirement plan" means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan

described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity. Effective January 1, 2002, an eligible retirement plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is an alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code;

- (c) "Distributee" means an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse; and

- (d) “Direct rollover” means a payment by the Plan to the eligible retirement plan specified by the distributee.

7.11 *Waiver of Notice Period*

Except as provided in the following sentence, if the value of the vested portion of a Member’s Account exceeds \$5,000, an election by the Member to receive a distribution prior to age 65 shall not be valid unless the written election is made (i) after the Member has received the notice required under Section 1.411(a)-11(c) of the Treasury regulations and (ii) within a reasonable time before the effective date of the commencement of the distribution as prescribed by said regulations. If such distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Treasury regulations is given, provided that:

- (a) the Committee clearly informs the Member that he or she has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option); and
- (b) the Member, after receiving the notice under Sections 411 and 417, affirmatively elects a distribution.

ARTICLE 8. VOTING

8.01 *Voting Company Stock*

- (a) Notwithstanding any other provision of this Plan to the contrary, if any, but subject to the provisions of this Article, the Trustee shall have no discretion or authority to vote Company Stock held in the trust by the Trustee on any matter presented for a vote by the stockholders of the Company except in accordance with timely directions received by the Trustee from Members who have Company Stock allocated to their Accounts under the Plan. Each Member who has allocated Company Stock shall, as the named fiduciary for this purpose, direct the Trustee with respect to the vote of the Company Stock allocated to the Member’s Account and the Trustee shall follow the directions of those Members who provide timely instructions to the Trustee;
- (b) With respect to Company Stock held in the Trust by the Trustee but not allocated to the Accounts of Members, and with respect to Company Stock otherwise allocated to Accounts of Members but for which no voting directions are timely received by the Trustee, the Trustee shall vote a percentage of such shares in favor of the proposed transaction that is equal to the percentage of allocated Common Stock in Members’ Accounts for which voting directions are timely received from Members that are in favor of such transaction, the Trustee shall vote a percentage of such shares

against the proposed transaction equal to the percentage of allocated Common Stock in Members’ Accounts for which voting directions are timely received from Members that are not in favor of such transaction, and the Trustee shall abstain from voting a percentage of shares for or against the proposed transaction equal to the percentage of allocated Common Stock in Members’ Accounts for which abstention voting directions are timely received from the Members;

- (c) In the event a court of competent jurisdiction shall issue any order or any opinion to the Plan, the Company or the Trustee, which shall, in the opinion of counsel to the Company or the Trustee, invalidate under ERISA, in all circumstances or in any particular circumstances, any provision or provisions of this Section 8.01 regarding the manner in which Company Stock held in the Trust shall be voted or cause any such provisions or provision to conflict with ERISA, then, upon notice thereof to the Company or the Trustee, as the case may be, such invalid or conflicting provisions of this Section 8.01 shall be given no further force or effect. In such circumstances the Trustee shall nevertheless have no discretion to vote allocated shares of Company Stock held in the Trust unless required under such order or opinion but shall follow instructions received from Members and not invalidated;

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- (d) In the event that any option, right, warrant, or similar property derived from or attributable to the ownership of the Company Stock allocated to Members shall be granted, distributed, or otherwise issued which is and shall become exercisable, each Member (or Beneficiary) shall be entitled to direct the Trustee, in writing, to sell, exercise, distribute, or retain any such option, right, warrant, or similar property. The securities acquired by the Trustee upon such exercise shall be held in a special account or accounts. For all Plan purposes, all options, rights, warrants, or similar property described in this paragraph (d) of Section 8.01 hereof shall be treated as income added to the appropriate Accounts of Members (or Beneficiaries). If, within a reasonable period of time after the form soliciting direction from a Member (or Beneficiary), has been sent, no written directions shall have been received by the Trustee from such Member (or Beneficiary), the Trustee shall, in its sole discretion, sell, exercise, or retain and keep unproductive of income such option, right, warrant, or similar property for which no response has been received from such Member (or Beneficiary) and also for options, rights,

- (e) The Trustee shall, in accordance with timely directions received by the Trustee from the Committee in its sole discretion, sell, exercise, or retain and keep unproductive of income such option, right, warrant, or similar property attributable to unallocated Company Stock held in the Suspense Account.

8.02 *Shareholder Communication*

Notwithstanding anything to the contrary in this Article 8, the Company shall make any and all communications or distributions required under the Shareholder Communications Act of 1985 and any rules thereunder.

ARTICLE 9. ADMINISTRATION OF PLAN

9.01 *Appointment of Committee*

The general administration of the Plan and the responsibility for carrying out the provisions of the Plan shall be placed in a Committee consisting of not more than three members of the Board of Directors, at least two of whom are "independent directors" of the Company within the meaning of NASDAQ Proposed Rule 4350(c)(1) (or its successor), and all of whom shall be appointed and serve at the pleasure of the Board of Directors. Any person who is appointed a member of the Committee shall signify his or her acceptance by filing written acceptance with the Board of Directors and the secretary of the Committee. Any member of the Committee may resign by delivering his or her written resignation to the Board of Directors and the secretary of the Committee.

9.02 *Duties of Committee*

The Committee shall elect a chairman from their number and a secretary who may be but need not be one of the members of the Committee; may appoint from their number such subcommittees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel, employ agents and provide for such clerical, accounting, and consulting services as they may require in carrying out the provisions of the Plan; may instruct the Trustee to vote unallocated shares held in the Suspense Account at the Committee's discretion; and may allocate among themselves or delegate to other persons all or such portion of their duties under the Plan, other than those granted to the Trustee under the trust agreement adopted for use in implementing the Plan, as they, in their sole discretion, shall decide. The Board of Directors, in its sole and absolute discretion, may delegate any or all of the duties of the Committee to the Trustee as it may determine from time to time, upon the Trustee's acceptance of such duties.

9.03 *Individual Account*

The Committee shall maintain, or cause to be maintained, records showing the individual balances in each Member's Account. However, maintenance of those records and Accounts shall not require any segregation of the funds of the Plan.

9.04 *Meetings*

The Committee shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine.

9.05 *Action of Majority*

Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of that majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Committee and shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office.

9.06 *Compensation and Bonding*

No member of the Committee shall receive any compensation from the Plan for his or her services as such. Except as may otherwise be required by law, no bond or other security need be required of any member in that capacity in any jurisdiction.

9.07 *Establishment of Rules*

Subject to the limitations of the Plan, the Committee from time to time shall establish rules for the administration of the Plan and the transaction of its business. The Committee shall have discretionary authority to construe and interpret the Plan (including, but not limited

under the Plan and the date on which any individual ceases to be a Member). The determination of the Committee as to the interpretation of the Plan or any disputed question shall be conclusive and final to the extent permitted by applicable law.

9.08 *Prudent Conduct*

The Committee shall use that degree of care, skill, prudence and diligence that a prudent man acting in a like capacity and familiar with such matters would use in his conduct of a similar situation.

9.09 *Service In More Than One Fiduciary Capacity*

Any individual, entity or group of persons may serve in more than one fiduciary capacity with respect to the Plan and/or the funds of the Plan.

9.10 *Limitation of Liability*

The Employer, the Board of Directors, the directors of an Employer, the Committee, and any officer, employee or agent of the Employer shall not incur any liability individually or on behalf of any other individuals or on behalf of the Employer for any act or failure to act, made in good faith in relation to the Plan or the funds of the Plan. However, this limitation shall not act to relieve any such individual or the Employer from a responsibility or liability for any fiduciary responsibility, obligation or duty under Part 4, Title I of ERISA.

9.11 *Indemnification*

The Committee, the Board of Directors, and the officers, employees and agents of the Employer shall be indemnified against any and all liabilities arising by reason of any act, or failure to act, in relation to the Plan or the funds of the Plan, including, without limitation, expenses reasonably incurred in the defense of any claim relating to the Plan or the funds of the Plan, and amounts paid in any compromise or settlement relating to the Plan or the funds of the Plan, except for actions or failures to act made in bad faith. The foregoing indemnification shall be from the funds of the Plan to the extent of those funds and to the extent permitted under applicable law; otherwise from the assets of the Employer.

9.12 *Named Fiduciary*

For purposes of ERISA, the Committee shall be the named fiduciary of the Plan except or until otherwise determined by the Board of Directors.

9.13 *Claims Procedure*

The claims procedure hereunder shall be as provided herein:

- (a) *Claim.* A Member or Beneficiary or other person who believes that he or she is being denied a benefit to which he or she is entitled (hereinafter referred to as "Claimant") may file a written request for such benefit with the Committee setting forth his claim;

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- (b) *Response to Claim.* The Committee shall respond within ninety (90) days of receipt of the claim. However, upon written notification to the Claimant, the response period may be extended for an additional ninety (90) days for reasonable cause. If the claim is denied in whole or in part, the Claimant shall be provided with a written opinion using nontechnical language setting forth:

- (i) The specific reason or reasons for the denial;
- (ii) The specific references to pertinent Plan provisions on which the denial is based;
- (iii) A description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or such information is necessary;
- (iv) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and
- (v) The time limits for requesting a review.

- (c) *Request for Review.* Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Committee review the determination

The Claimant or his duly authorized representative may review the pertinent documents and submit issues and comments in writing for consideration by the Committee. If the Claimant does not request a review of the determination within such sixty (60) day period, he shall be barred from challenging the determination; and

- (d) *Review and Decision.* The Committee shall review the determination within sixty (60) days after receipt of a Claimant's request for review; provided, however, that for reasonable cause such period may be extended to no more than one hundred twenty (120) days. After considering all materials presented by the Claimant, the Committee will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent Plan provisions on which the decision is based.

9.14 *Committee's Decision Final*

Subject to applicable law, any interpretation of the provisions of the Plan and any decision on any matter within the discretion of the Committee made by the Committee in good faith shall be binding on all persons. A misstatement or other mistake of fact shall be corrected when it becomes known and the Committee shall make such adjustment on account thereof as it considers equitable and practicable.

ARTICLE 10. MANAGEMENT OF FUNDS

10.01 *Trust Agreement*

All the funds of the Plan shall be held by a Trustee appointed from time to time by the Board of Directors under a trust agreement adopted, or as amended, by the Board of Directors for use in providing the benefits of the Plan and paying its expenses not paid directly by the Employer. The Employer shall have no liability for the payment of benefits under the Plan nor for the administration of the funds paid over to the Trustee.

10.02 *Exclusive Benefit Rule*

Except as otherwise provided in the Plan, no part of the corpus or income of the funds of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of Members and other persons entitled to benefits under the Plan and paying the expenses of the Plan not paid directly by the Employer. No person shall have any interest in, or right to, any part of the earnings of the funds of the Plan, or any right in, or to, any part of the assets held under the Plan, except as and to the extent expressly provided in the Plan.

ARTICLE 11. GENERAL PROVISIONS

11.01 *Nonalienation*

- (a) Except as required by any applicable law or by paragraph (c), no benefit under the Plan shall in any manner be anticipated, assigned or alienated, and any attempt to do so shall be void. However,

payment shall be made in accordance with the provisions of any judgment, decree, or order which:

- (i) creates for, or assigns to, a spouse, former spouse, child or other dependent of a Member the right to receive all or a portion of the Member's benefits under the Plan for the purpose of providing child support, alimony payments or marital property rights to that spouse, child or dependent;
 - (ii) is made pursuant to a State domestic relations law;
 - (iii) does not require the Plan to provide any type of benefit, or any option, not otherwise provided under the Plan; and
 - (iv) otherwise meets the requirements of Section 206(d) of ERISA, as amended, as a "qualified domestic relations order", as determined by the Committee.
- (b) Notwithstanding anything herein to the contrary, if the amount payable to the alternate payee under the qualified domestic relations order is less than \$5,000, such amount shall be paid in one lump sum as soon as practicable following the qualification of the order. If the amount exceeds \$5,000, it may be paid as soon as practicable following the qualification

of (i) the Member's termination of employment or (ii) the Member's attainment of age 50; and

- (c) A Member's benefit under the Plan shall be offset or reduced by the amount the Member is required to pay to the Plan under the circumstances set forth in Section 401(a)(13)(C) of the Code.

11.02 *Conditions of Employment Not Affected by Plan*

The establishment of the Plan shall not confer any legal rights upon any Eligible Employee or other person for a continuation of employment, nor shall it interfere with the rights of the Employer to discharge any Eligible Employee and to treat him or her without regard to the effect which that treatment might have upon him or her as a Member or potential Member of the Plan.

11.03 *Facility of Payment*

If the Committee shall find that a Member or other person entitled to a benefit is unable to care for his or her affairs because of illness or accident or because he or she is a minor, the Committee may direct that any benefit due him or her, unless claim shall have been made for the benefit by a duly appointed legal representative, be paid to his or her spouse, a child, a parent or other blood relative, or to a person with whom he or she resides. Any payment so made shall be a complete discharge of the liabilities of the Plan for that benefit.

11.04 *Erroneous Allocation*

Notwithstanding any provision of the Plan to the contrary, if a Member's Account is credited with an erroneous amount due to a mistake in fact or law, the Committee shall adjust such Account in such equitable manner as it deems appropriate to correct the erroneous allocation.

11.05 *Information*

Each Member, Beneficiary or other person entitled to a benefit, before any benefit shall be payable to him or her or on his or her account under the Plan, shall file with the Committee the information that it shall require to establish his or her rights and benefits under the Plan.

11.06 *Top-Heavy Provisions Prior to January 1, 2002*

- (a) The following definitions apply to the terms used in this Section:
- (i) "applicable determination date" means the last day of the preceding Plan Year;
 - (ii) "top-heavy ratio" means the ratio of (A) the value of the aggregate of the Accounts under the Plan for key employees to (B) the value of the aggregate of the Accounts under the Plan for all key employees and non-key employees;

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- (iii) "key employee" means an Employee who is in a category of employees determined in accordance with the provisions of Sections 416(i)(1) and (5) of the Code and any regulations thereunder, and where applicable, on the basis of the Employee's statutory compensation from the Employer or an Affiliate;
 - (iv) "non-key employee" means any Employee who is not a key employee;
 - (v) "applicable Valuation Date" means the Valuation Date coincident with or immediately preceding the last day of the preceding Plan Year;
 - (vi) "required aggregation group" means any other qualified plan(s) of the Employer or an Affiliate in which there are members who are key employees or which enable(s) the Plan to meet the requirements of Section 401(a)(4) or 410 of the Code; and
 - (vii) "permissive aggregation group" means each plan in the required aggregation group and any other qualified plan(s) of the Employer or an Affiliate in which all members are non-key employees, if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.

- (b) For purposes of this Section, the Plan shall be “top-heavy” with respect to any Plan Year if as of the applicable determination date the top-heavy ratio exceeds 60 percent. The top-heavy ratio shall be determined as of the applicable Valuation Date in accordance with Sections 416(g)(3) and (4) of the Code and Article 5 of this Plan, and shall take into account any contributions made after the applicable Valuation Date but before the last day of the Plan Year in which the applicable Valuation Date occurs. For purposes of determining whether the Plan is top-heavy, the Account balances under the Plan will be combined with the Account balances or the present value of accrued benefits under each other plan in the required aggregation group, and, in the Employer’s discretion, may be combined with the account balances or the present value of accrued benefits under any other qualified plan in the permissive aggregation group. Distributions made with respect to a Member under the Plan during the five-year period ending on the applicable determination date shall be taken into account for purposes of determining the top-heavy ratio; distributions under plans that terminated within such five-year period shall also be taken into account, if any such plan contained key employees and therefore would have been part of the required aggregation group;
- (c) The following provisions shall be applicable to Members for any Plan Year with respect to which the Plan is top-heavy:

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- (i) In lieu of the vesting requirements specified in Section 6.01, a Member shall be vested in, and have a nonforfeitable right to, his or her Account in accordance with the following schedule:

Years of Vesting Service	Nonforfeitable Percentage
less than 2 years	0%
2 years	20
3 years	40
4 years	60
5 or more years	100

provided that in no event shall the vested portion of his or her Account be less than the vested portion determined under Section 6.01; and

- (ii) An additional Employer contribution shall be allocated on behalf of each Member (and each Eligible Employee eligible to become a Member) who is a non-key employee, and who has not separated from service as of the last day of the Plan Year, to the extent that the contributions made on his or her behalf under Section 3.01 for the Plan Year would otherwise be less than 3 percent of his or her remuneration. However, if the greatest percentage of remuneration contributed on behalf of a key employee under Section 3.01 for the Plan Year would be less than 3 percent, that lesser percentage shall be substituted for “3

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percent” in the preceding sentence. Notwithstanding the foregoing provisions of this subparagraph (ii), no minimum contribution shall be made under this Plan with respect to a Member (or an Employee eligible to become a Member) if the required minimum benefit under Section 416(c)(1) of the Code is provided to him or her by any other qualified pension plan of the Employer or an Affiliate. For the purposes of this subparagraph (ii), remuneration has the same meaning as set forth in Section 3.03(c).

- (d) If the Plan is top-heavy with respect to a Plan Year and ceases to be top-heavy for a subsequent Plan Year, the following provisions shall be applicable:
- (i) If a Member has completed at least three years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting schedule set forth in paragraph (b)(i) shall continue to be applicable; and
- (ii) If a Member has completed at least two, but less than three, years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting provisions of Section 6.01 shall again be applicable; provided, however, that in no event shall the

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vested percentage of a Member’s Account be less than the percentage determined under paragraph (b)(i) above as of the last day of the most recent Plan Year for which the Plan was top-heavy.

- (a) *Effective Date.* This Section 11.07 shall apply for purposes of determining whether the Plan is a top-heavy plan under Section 416(g) of the Code for Plan Years beginning after December 31, 2001, and whether the Plan satisfies the minimum benefits requirements of Section 416(c) of the Code for such years. This section amends the above Section 11.06 of the Plan;
- (b) *Determination of Top-Heavy Status.* Key employee means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date was an officer of the Employer having annual compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of the Employer, or a 1-percent owner of the Employer having annual compensation of more than \$150,000. For this purpose, annual compensation means compensation within the meaning of Section 415(c)(3) of the Code. The determination of who is a key employee will be made in accordance with

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Section 416(i) of the Code and the applicable regulations and other guidance of general applicability issued thereunder; and

- (c) *Determination of Present Values and Amounts.* This Section 11.07(c) shall apply for purposes of determining the present values of accrued benefits and the amounts of account balances of Employees as of the determination date.
 - (i) *Distributions During Year Ending on the Determination Date.* The present values of accrued benefits and the amounts of Account balances of an Employee as of the determination date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under Section 416(g) (2) of the Code during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or Disability, this provision shall be applied by substituting "5-year period" for "1-year period"; and

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- (ii) *Employees not performing services during the year ending on the determination date.* The accrued benefits and Accounts of any individual who has not performed services for the Employer during the 1-year period ending on the determination date shall not be taken into account.
 - (d) *Minimum Benefits*
 - (i) *Matching Contributions.* Employer matching contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Section 416(c)(2) of the Code and the Plan. The preceding sentence shall apply with respect to matching contributions under the Plan or, if the Plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Employer matching contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of Section 401(m) of the Code; and
 - (ii) *Contributions under other plans.* The Employer may provide in the adoption agreement that the minimum benefit requirement shall be met in another plan (including another plan that consists solely of a cash or deferred

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arrangement which meets the requirements of Section 401(k)(12) of the Code and matching contributions with respect to which the requirements of Section 401(m)(11) of the Code are met).

11.08 *Prevention of Escheat*

If the Committee cannot ascertain the whereabouts of any person to whom a payment is due under the Plan, the Committee may, no earlier than three years from the date such payment is due, mail a notice of such due and owing payment to the last known address of such person, as shown on the records of the Committee or the Employer. If such person has not made written claim therefor within three months of the date of the mailing, the Committee may, if it so elects and upon receiving advice from counsel to the Plan, direct that such payment and all remaining payments otherwise due such person be canceled on the records of the Plan and the amount thereof applied to reduce the contributions of the Employer. Upon such cancellation, the Plan and the Trust shall have no further liability therefor except that, in the event such person or his or her Beneficiary later notifies the Committee of his or her whereabouts and requests the payment or payments due to him or her under the Plan, the amount so applied shall be paid to him or her in accordance with the provisions of the Plan.

11.09 *Written Elections*

time and manner determined by the Committee under rules uniformly applicable to all Employees similarly situated. The Committee reserves the right to change from time to time the time and manner for making notifications, elections or designations by Members under the Plan if it determines after due deliberation that such action is justified in that it improves the administration of the Plan. In the event of a conflict between the provisions for making an election, notification or designation set forth in the Plan and such new administrative procedures, those new administrative procedures shall prevail.

11.10 *Construction*

- (a) The Plan shall be construed, regulated and administered under ERISA and the laws of the State of California, except where ERISA controls; and
- (b) The titles and headings of the Articles and Sections in this Plan are for convenience only. In the case of ambiguity or inconsistency, the text rather than the titles or headings shall control.

ARTICLE 12. AMENDMENT, MERGER AND TERMINATION

12.01 *Amendment of Plan*

The Board of Directors reserves the right at any time and from time to time, and retroactively if deemed necessary or appropriate, to amend in whole or in part any or all of the provisions of the Plan. The Committee may amend the Plan, provided such amendments would not significantly increase the cost of the Plan,

change the level of benefits provided under the Plan or modify the underlying policy reflected by the Plan and provided, further, that notwithstanding the above, the Committee may adopt any amendment necessary to maintain the Plan's qualified status under the applicable provisions of the Code. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan. No amendment shall be made which has the effect of decreasing the balance of the Account of any Member or of reducing the nonforfeitable percentage of the balance of the Account of a Member below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted, or if later, the date on which the amendment becomes effective. Any action to amend the Plan by the Board of Directors shall be taken in such manner as may be permitted under the by-laws of the Company, and any action to amend the Plan by the Committee shall be taken at a meeting held in person or by telephone or other electronic means or by unanimous written consent in lieu of a meeting.

12.02 *Merger, Consolidation or Transfer*

The Plan may not be merged or consolidated with, and its assets or liabilities may not be transferred to, any other plan unless each person entitled to benefits under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he or she would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

12.03 *Additional Participating Employers*

- (a) If any company is or becomes an Affiliate, the Board of Directors may include the Employees of that Affiliate in the membership of the Plan upon appropriate action by that Affiliate necessary to adopt the Plan unless the Board of Directors or its delegate provides otherwise. In that event, or if any persons become Eligible Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another company, the Board of Directors shall determine to what extent, if any, previous service with the Affiliate shall be recognized under the Plan, but subject to the continued qualification of the Trust for the Plan as tax-exempt under the Code; and
- (b) Any Affiliate may terminate its participation in the Plan upon appropriate action by it. In that event the funds of the Plan held on account of Members in the employ of that Affiliate, and any unpaid balances of the Accounts of all Members who have separated from the employ of that Affiliate, shall be determined by the Committee. Those funds shall be distributed as provided in Section 12.04 if the Plan should be terminated, or shall be segregated by the Trustee as a separate trust, pursuant to certification to the Trustee by the Committee, continuing the Plan as a separate plan for the employees of that Affiliate under which

the board of directors of that Affiliate shall succeed to all the powers and duties of the Board of Directors, including the appointment of the members of the Committee.

12.04 *Termination of Plan*

The Board of Directors, by action taken at a meeting held in person or by telephone or other electronic means, or by unanimous written consent in lieu of a meeting, may terminate the Plan or completely discontinue Employer contributions under the Plan for any reason at any time. In case of termination or partial termination of the Plan, or complete discontinuance of Employer contributions to the Plan, the rights of affected Members to their Accounts under the Plan as of the date of the termination or discontinuance shall be nonforfeitable. In the event of the Plan's termination, the total amount in each Member's Account shall be distributed to him or her if permitted by law or continued in trust for his or her benefit, as the Committee shall direct.

SUBSIDIARIES OF FARMER BROS. CO.

Farmer Bros. Co., a Delaware corporation

FBC Finance Co., a California corporation

Coffee Bean Holding Co., Inc., a Delaware corporation

Sierra Herb (inactive), a California corporation

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Guenter W. Berger, Chairman and Chief Executive Officer of Farmer Bros. Co. ("Registrant"), certify that:

1. I have reviewed this Annual Report on Form 10-K of Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: September 10, 2007

/s/ Guenter W. Berger
Guenter W. Berger
Chairman and Chief Executive Officer
(Principal Executive Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John E. Simmons, Treasurer and Chief Financial Officer of Farmer Bros. Co. ("Registrant"), certify that:

1. I have reviewed this Annual Report on Form 10-K of Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: September 10, 2007

/S/ John E. Simmons

John E. Simmons
Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Farmer Bros. Co. (the “Company”) on Form 10-K for the fiscal year ended June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Guenter W. Berger, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 10, 2007

/S/ Guenter W. Berger

Guenter W. Berger

Chairman and Chief Executive Officer

(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Farmer Bros. Co. (the “Company”) on Form 10-K for the fiscal year ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John E. Simmons, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: September 10, 2007

/S/ John E. Simmons

John E. Simmons

Treasurer and Chief Financial Officer

(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Farmer Bros Co.**Offices Warehouses and Plants:**

Farmer Bros. Co. is headquartered in Torrance, California. It roasts and packages coffee, processes spices and other restaurant supplies at that locati on, and manufactures a complete line of coffee-brewing equipment at its Brewmatic Division plant in Los Angeles. The Corporation's primary business is conducted through its internal divisions: Restaurant and Institutional Sales Division, Brewmatic Division, Spice Products Division and Custom Coffee Plan Division; and two subsidiaries, Coffee Bean International, Inc. a specialty coffee roaster and wholesaler located in Portland, Oregon and FBC Finance Company, a personal property broker licensed by the state of California.

Executive Offices:

Farmer Bros. Co.
 20333 South Normandie Avenue, Torrance, California
 Restaurant and Institutional Sales Division
 20401 South Normandie Avenue, Torrance, California
 Brewmatic Company Division
 20333 South Normandie Avenue, Torrance, California
 Coffee Bean International, Inc.
 2181 NW Nicolai Street, Portland, Oregon
 Spice Products Company Division
 20333 South Normandie Avenue, Torrance, California
 Custom Coffee Plan Division
 20333 South Normandie Avenue, Torrance, California
 FBC Finance Co.
 20333 South Normandie Avenue, Torrance, California

Restaurant and Institutional Sales Branch Warehouses*Arizona*

FLAGSTAFF
 2385 N. Walgreen Street

LAKE HAVASU
 1880 Commander Dr., Suite C

PHOENIX
 1060 W. Alameda Dr.
 Tempe

TUCSON
 3818 South Evans Blvd.

YUMA
 3320 E. Gila Ridge Rd.
 Bldg 5, Unit 3

Arkansas

FAYETTEVILLE
 3901-D Kelly
 Springdale

LITTLE ROCK
 7630 Hardin Drive
 North Little Rock

California

BAKERSFIELD
 8802 Swigert Ct.

BISHOP
 324 E. Clarke Street

CASTROVILLE
 11460 Commercial Parkway

CHICO
 480 Ryan Ave., Ste 100

EUREKA

1825 3rd Street

FRESNO
4576 N. Bendel

LANCASTER
42138 7th Street West

LOS ANGELES DOWNTOWN
3828 S Main St.

OAKLAND
9844 Kitty Lane

PALM SPRINGS
72205 Corporate Way
Thousand Palms

RIVER SIDE
12101 Madera Way

SACRAMENTO
2450 Boatman Ave.

SAN BERNARDINO
2751 S. Lilac Ave.
Rialto

SAN DIEGO
7855 Ostrow St., B

SAN GABRIEL
859 Meridian St.
Duarte

S AN JOSE
1462 Seareel Pl.

SAN LUIS OBISPO
3415 Miguelito Ct.

SANTA ANA
3921 W. Segerstrom Ave.

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SANTA FE SPRINGS
9901 Bell Ranch Road

SANTA ROSA
470 E. Todd Rd.

STOCKTON
4243 Arch Road

TORRANCE
20401 S. Normandie Ave.

LOS ANGELES SF VALLEY
9373 Remick Ave.

VENTURA
1350 Stellar Dr.
Oxnard

VICTORVILLE
17190 Yuma St.

Colorado

COLORADO SPRINGS
337 Manitou Ave.
Manitou Springs

DENVER

5595 Joliet Street

FORT COLLINS
4500 Innovation Drive

GRAND JUNCTION
2848 Chipeta Ave., #B

Idaho

BOISE
1625 South Curtis

IDAHO FALLS
805 S. Saturn Ave.
Resident Branch:
TWIN FALLS
258 6th Ave. W

Illinois

CHICAGO
31W280 Diehl Rd., Unit 103
Naperville

MOLINE
2950 38th Avenue

SPRINGFIELD

3430 Constitution Dr. #122

Indiana

EVANSVILLE
1905 N. Kentucky Ave.

INDIANAPOLIS
1123 Country Club Rd.

Iowa

DES MOINES
1662 N.E. 55th Ave.

OMAHA
3217 Nebraska Ave.
Council Bluffs

Kansas

WICHITA
2355 S. Edwards,Suite B

Louisana

SHREVEPORT
4113 Metro Dr

Minnesota

DULUTH
4314 Enterprise Cr.

MINNEAPOLIS
3074 84th Lane N E
Blaine

Missouri

< /p>
COLUMBIA
4881 B I-70 Drive SW

KANSAS CITY
9 N.E. Skyline Dr.

Lee's Summit

SPRINGFIELD
450 M S. Union

ST. LOUIS
12832 Pennridge Dr.

Montana

BILLINGS
2625 Enterprise Ave.

GREAT FALLS
2600 16th St. N.E.
Black Eagle

MISSOULA
2751 Charlo St.

Nebraska

NORTH PLATTE
601 Sioux Meadow

Nevada

ELKO
460 S. A Street

LAS VEGAS
3417 Losee Rd.

CARSON CITY
3880 Technology Way

New Mexico

ALBUQUERQUE
5911 Office Blvd.
Resident Branch:
FARMINGTON
1414 Schofield Lane

ROSWELL< /font>
710 East College

North Dakota

BISMARCK
3800 Commerce Drive, Suite C

FARGO
710 38th St. N.W.- Unit C
Ohio

CINCINNATI
2138A Schappelle Lane

Oklahoma

OKLAHOMA CITY
4611 S.W. 20th St.

TULSA
804 S. 8th St.
Broken Arrow

Oregon

BEND
20409 N. W. Cady Way
Resident Branch

EUGENE
2495 Unit C Prairie Rd.

MEDFORD

777 East Vilas Rd.
Central Point

PORTLAND

7515 N.E. 33rd Dr.

South Dakota

RAPID CITY

2030 Creek Dr.

SIOUX FALLS

2405 W. 5th St.

Tennessee

MEMPHIS

5753 E. Shelby Dr., Ste 1

NASHVILLE

304 “A” Hill Ave.

Texas

AMARILLO

1415 S. Johnson St.
Resident Branch:

AUSTIN

2004 Lamar Dr.
Round Rock

CORPUS CHRISTI

3909 Wow Road

DALLAS/FT. WORTH

744 Avenue H East
Arlington

EL PASO

1325 Don Haskins Dr .

HOUSTON

6638 Rupley Circle

LUBBOCK

1608 D No. University

McALLEN

1312 E. Laurel

ODESSA

2017 W. 7th

SAN ANTONIO

4930 Center Park

WICHITA FALLS

1404 Beverly Drive

Utah

E. 10915 Montgomery Dr.

SALT LAKE CITY
2230 So. 2000 West

ST. GEORGE
988 W. Sunset Blvd. #4

Washington

SEATTLE
8660 Willows Rd.
Redmond

SPOKANE
Washington Continued

TACOMA
9412 Front Street
Lakewood

YAKIMA
2301 S. 18th Street
Union Gap

Wisconsin
&n bsp;
GREEN BAY
1227 S. Maple Ave.

CASPER
2170 N. Old Salt Creek Hwy.

LA CROSSE
1232 Clinton St.

MADISON
1017 Jonathan Dr.

MILWAUKEE
W. 182 S8335-A Racine Ave.
Muskego

Coffee Bean International, Inc.

Oregon

PORTLAND

603 SW Broadway

2615 NW Industrial

Custom Coffee Plan Branch Warehouses

< /p>

California

NORTH HOLLYWOOD
7419 Bellaire Ave.

SAN DIEGO
7855-A Ostrow St.

SAN LEANDRO
3041 Teagarden

TORRANCE
20333 S. Normandie Ave.

Colorado

DENVER
5595 Joliet Street, #B

Texas

DALLAS
722 Avenue H East
Arlington

HOUSTON
11519 South Petropark Drive
